

00000002	
Top Secret	
	25X

Memorandums in Support Of the Vice President's Trip to China

ON FILE DEPARTMENT OF COMMERCE RELEASE INSTRUCTIONS APPLY

Top Secret

NI M 79-10006.I August 1979

Copy

38



SECRET

CONTENTS

- A. China: Domestic Political Overview
- B. China's Foreign Policy: An Overview
- C. China: The Economic Outlook
- D. China's Foreign Economic Relations: Policies and Prospects
- E. China's Military Posture and Modernization
- F. Science and Technology in China
- G. Water Control Projects in China
- H. Expansion and Modernization of China's Civil Air Service
- I. Beijing and the Provinces

Beijing and the Northeast Provinces Shaanxi, Shanxi, and Inner Mongolia Guangdong, Guangxi, and Yunnan

People's Republic of China: New Pinyin Romanization



Conventional	Characters	Pinyin	Pronunciation	Conventional	Characters	Pinyin	Pronunciation
Anhwei	安徽	Anhui	ahn - way	Kweichow	贵州	Guizhou	g way - joe
Chekiang	浙江	Zhejiang	juh - jee ong	Liaoning	辽宁	Liaoning	lee ow - ning
Fukien	福建	Fujian	foo - jee en	Ningsia	宁夏	Ningxia	ning - she ah
Heilungkiang	黑龙江	Heilongjiang	hay - loong - jee ong	Peking	北京	Beijing	bay - jing
Honan	河南	Henan	huh - non	Shanghai	上海	Shanghai	shong - hi
Hopeh	河北	Hebei	huh - bay	Shansi	山西	Shanxi	shahn - she
Hunan	湖南	Hunan	hoo - nan	Shantung	山东	Shandong	shahn - doong
Hupeh	湖北	Hubei	hoo - bay	Shensi	陕西	Shaanxi	shun - she
Inner Mongolia	内蒙古	Nei Monggol	nay - mung - goo	Sinkiana	新疆	Xinjiang	shin - jee ong
Kansu	甘肃	Gansu	gahn - soo	Szechwan	四川	Sichuan	ssu - ch wan
Kiangsi	江西	Jiangxi	jee ong - she	Tibet	西藏	Xizang	she - dzona
Kiangsu	江苏	Jiangsu	jee ong - su	Tientsin	天津	Tianjin	te en - jin
Kirin	吉林	Jilin	jee - lynn	Tsinghai	青海	Qinghai	ching - hi
Kwangsi	广西	Guangxi	g wong - she	Yunnan	云南	Yunnan	yu oon - nan
Kwangtung	广东	Guangdong	g wong - doong				Jugon nan

	S	E	${\color{red}\mathtt{C}}$	R	Έ	1

CHINA: DOMESTIC POLITICAL OVERVIEW

Executive Summary

The post-Mao era in Chinese politics has seen a major change in the way Chinese leaders handle their personal and political rivalries and the effect these political problems have on the country at large. Gone is the extreme polarization of the late 1960s and early 1970s when leftists, whose primary concern was political struggle, and rightists, whose preoccupation was the problem of nation building, clashed repeatedly. In this earlier period, policies were put into practice with great fanfare and then suddenly shelved; political leaders wielded enormous power and then lost their jobs.

25X1

Today, there are several leading officials who together form the decisionmaking core. While they differ sharply over how to carry out some policies, they are in general agreement on the broad outlines of China's priorities and policies. Consequently, a basic policy to embark on economic modernization remains fixed despite disputes over concrete measures to take. Policies have been scaled down, redirected, or otherwise modified but not reversed. This is true of even such contentious policies as the desanctification of Mao Zedong and the promotion of "democratic" activity.

25X1

Many officials in the leadership do not work well together, but the emphasis is on limiting an opponent's influence rather than removing him from office. Leaders

This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum has been coordinated with the National Intelligence Officer for China. Questions and comments may be addressed to

25X<u>1</u>

25X1

PA M 79-10327

25X1

A-1

SECRET				

who rose to power during the disruptive Cultural Revolution--as well as Deng Xiaoping, a chief victim of that era--are all potential troublemakers who have suffered some reduction in their status.

25X1

Deng has weathered severe criticism that has diminished somewhat his once-preeminent influence. Other leaders, who have assumed larger roles, have moved to adjust the more controversial aspects of his policies. This process has actually made his policies more durable because they are now more acceptable to a wider constituency.

25X1

The diffusion of influence within the leadership has resulted in greater political power for leading economic specialists who are responsible for the less ambitious modernization program. Senior victims of the Cultural Revolution other than Deng have also seen their fortunes rise, as has party Chairman Hua Guofeng.

25X1

Introduction

Political life in China has undergone a major transformation since the deaths in 1976 of China's two political giants, Mao Zedong and Zhou Enlai. Although the loss of these men was neither sudden nor surprising, Chinese political leaders were ill prepared for the consequences. Zhou's death was followed by a marked upsurge in disruptive political maneuvering by the so-called Gang of Four, extremists headed by Mao's wife who had little interest in the nuts and bolts of running a country but enormous concern with the political reliability of people in all walks of life. Zhou's chosen successor as Premier, the abrasive but able and popular Deng Xiaoping, was ousted from the leadership in early 1976 and his many supporters were in danger of losing their political lives.

25X1

This period of heightened political tension came to an abrupt end with Mao's death in September 1976 and the summary arrest a month later of the Gang of Four. The arrest brought to a close more than 10 years of extreme polarization in the leadership and was greeted with national euphoria. It left the remaining leaders, however, somewhat uncertain about how to apportion power among themselves, what to do first to repair the damage

	SECKET

of more than a decade of instability, and what longer term goals to set. Mao's successor, Hua Guofeng, had been moved into position during Mao's lifetime, and his promotion was perhaps the easiest decision of the immediate post-Mao period. But the 56-year-old Hua was an unknown quantity to most older leaders and to the nation at large; no one else in the leadership was vigorous enough or prestigious enough to seize the reins, and there was a growing feeling that China needed the firm and familiar hand of Deng Xiaoping at the helm.

25X1

Deng's return in July 1977 had significant political consequences. It marked the end of this "collective"-leadership-by-default as Deng worked, ultimately with mixed success, to become the dominant force. It halted the drift in decisionmaking as the determined and decisive Deng quickly outlined sweeping policy changes aimed at vaulting China into the modern industrialized world by the end of the century. Moreover, it ushered in a new kind of political struggle among leaders who are not necessarily on opposite ends of the political spectrum and do not disagree significantly over what China's general goals should be, but who have major differences over how to achieve them.

25X1

The Combatants

There are roughly two main lines of argument over how to build the nation. One, advocated by Deng and his followers, demands a detailed and lengthy indictment of past policies and political officials associated with them. This would entail a thorough condemnation of Mao, of the disastrous Cultural Revolution of the mid-1960s, and of the xenophobic, often impractical and highly politicized decisions of the past. It would also involve the removal of many officials--possibly including Hua himself--who made their names during that time.

25X1

Deng's group believes that this approach is the only way to ensure that his pragmatic policies are not waylaid in the future by those who remain committed to the principles of the Cultural Revolution—the supremacy of political reliability over technical expertise, the corrosive effect of material rather than ideological incentives, a distrust of foreigners and foreign practices and of intellectuals and any other

group not necessarily wedded to the tenets of Communist ideology. Deng seems to believe that only by condemning the past can an atmosphere be created in which people will feel free to experiment boldly with new techniques and policies in order to further the primary goal of modernizing the economy.

.25X1

Deng's opponents, including but by no means restricted to Hua, fear the disruptive effects of so sharp a break with the past. They put a premium on political stability now as the only hope for creating an environment conducive to steady economic growth. A purge of the few top officials and the many middle and lower level officials who were promoted during the Cultural Revolution, they believe, would paralyze people with fear and prevent them from taking any initiatives in the economic sphere. A denunciation of Mao and of the recent past would have a destabilizing effect, casting doubt on the legitimacy of all of the late Chairman's policies, including his selection of Hua as his successor, and creating confusion about the legitimacy of the Communist revolution itself.

25X1

This group recognizes, as Deng does, the residual influence of the Cultural Revolution and all it represented. Unlike Deng, it wants to enlist the support of the true believers of the Cultural Revolution by allowing them another chance, by not calling into question everything they believe in, and indeed by acknowledging that some policies of that era were correct.

25X1

The shifts in policy in the two years since Deng's return have occurred when one or the other group held sway. Significantly, these were not the sharp twists and turns of the last decade, when leaders were in fundamental disagreement over the direction of policies, but were modifications, adjustments, matters of degree. wisdom of trying to modernize the economy has not been at issue, nor has a greater involvement of the outside world in order to achieve modernization. But even over the relatively narrow issue of how to implement a particular policy, or how far to push it, the Chinese leadership, with its penchant for internecine struggle, has found much to argue over. If this has not resulted in policy changes or the ouster of individual leaders, it has caused modifications of policies and the reduction of the political power of several leaders.

Approved For Release 2007/12/06: CIA-RDP83R00184R0026005900	002-8
11 CA . 15 C. 1	

\sim	_	`	4
٠,	-	x	1
_	.,	^	- 1

Deng on the March

From the time of his return, Deng moved quickly to put his personal stamp on Chinese policies. At no point was he without opposition, but he advanced on so many fronts in ways that captured a good deal of public and official support that he enjoyed enormous success. At the same time, however, the boldness of his initiatives and his refusal to accommodate even the slightest criticism of his policies sowed the seeds of stiffer, more successful opposition down the road.

25X1

The economic modernization program is not Deng's alone and was in fact first announced by Zhou Enlai in 1964. Many of the specifics of the program, however, as outlined in 1977-78, were distinctively Deng's. These included turning to the outside world for help to a degree probably well beyond what Zhou Enlai had Deng seemed willing to go much further than other Chinese officials in accepting foreign loans, entering into joint ventures and concessionary arrangements, inviting foreign technicians to train Chinese technicians in China, and sending thousands of scientists and students abroad to do research and to study. won the support of workers with a long-awaited pay raise and secured the loyalty of intellectuals when he stood Maoist orthodoxy on its head by proclaiming that intellectuals are part of the laboring class and therefore not politically suspect. Scientists commanded Deng's particular attention and were cheered by his personal pledge to allow them to do research unencumbered by party politics.

25X1

Other policies even more basic to Deng's vision of a rapidly modernizing China drew less applause and in some cases sent shock waves throughout Chinese officialdom. A gradual effort to dismantle the Mao legacy took a dramatic step forward last March with a public denunciation of the last 18 years of Mao's life. De-Maoization inevitably cast aspersions on Mao's chosen heir, Hua Guofeng, who came under more direct attack than at any time since he rose to the party chairmanship.

25X1

Deng's emphasis on discarding Maoist thinking and finding new solutions to new problems spawned opposition among Mao's personal disciples, who feared that a

A-5

wholesale denigration of Mao's precepts would undermine their political positions. Public repudiations of specific incidents during the Cultural Revolution were discomfiting to survivors of that period and threatened to revive bitter feuds. Deng launched a major campaign aimed clearly at removing from office some senior officials with whom he had personal and policy differences in the past, while moving trusted lieutenants into key party, government, and military posts. And he personally endorsed a relaxation of political controls on the populace to encourage open discussion of China's policies and leaders and even its system of government.

25X1

The Retrenchment

Early this year, the political opposition engendered by Deng's programs, the apparent or prospective failure of some of them, and the unacceptable consequences of others combined to force Deng to retreat. The excesses of the economic program were trimmed, Deng's reevaluation of the Maoist past came to a sudden stop, "democracy" was assailed as anarchic, and Deng's political opponents became more active. Deng's own political standing reached its lowest point this spring when he was more heavily criticized than at any time since he returned to office.

25X1

The leadership, guided by senior economic specialists, took a hard look at the specifics of the economic modernization program and concluded it was unrealistic. In its rush to buy foreign plants and technology, to send people abroad for training, to engage in capital construction at home, and to expose middle-level officials to the Western world, China was spending more money than it could afford. None of these programs have been scrapped, but they have all been scaled down and implemented more selectively. Goals deemed unrealistically high were reset at levels still ambitious but more likely within reach; priorities were redirected away from heavy industry and back toward agriculture.

25X1

Deng admitted that he was criticized for the modernization program. As he himself claimed, he was not the only leader to be blamed, but he unquestionably created a climate that allowed if not encouraged China to overextend itself. His highly publicized trips to

A-6

SECRET	

the United States and Japan, shown to a Chinese audience in part to enhance his political image, probably caused him additional problems. The material benefits of these countries, displayed to Chinese viewers in some detail, undoubtedly fueled the spiral of rising expectations that had been set in train when the modernization program was first unveiled. It was left to the more soberminded economic specialists in the leadership to dampen these expectations.

25X1

Deng's policies in the political and social arenas got him into even more hot water. He was privately criticized for promoting de-Maoization; his emphasis on a flexible, pragmatic approach to problem solving and his concurrent deemphasis on the rote application of orthodox Communist solutions--summed up in the slogans "seeking truth from facts" and "practice is the sole criterion for testing truth"--were severely attacked for undermining the sanctity of Mao's thought. The criticism of these slogans in particular enabled the so-called whatever faction--composed of political extremists who have tried to preserve whatever Mao said or did as beyond question--to reassert itself.

25X1

Perhaps most damaging for Deng, because it raised questions about his judgment, was the disintegration of the "democracy" movement into social disorder. Chinese tolerance was stretched to the breaking point when people left their places of work to petition for a redress of personal grievances or disrupted production by striking for better living conditions. Even more appalling for the straitlaced Chinese was the activity of young people, who engaged in gambling and promiscuous behavior. The calls for human rights and the direct appeals to foreign leaders to help secure them were embarrassing for the Chinese and more than anything else precipitated the crackdown on "democracy". leaders were arrested, and restrictions were placed on the use of wall posters and the dissemination of unofficial publications. Deng, who had unleashed the "democracy" movement, issued the call to rein it in.

Approved For Re	elease 2007/12/06 : CIA-RDI	P83R00184R002600590002-8
	SECRET	

Deng's Counterattack

In mid-May, Deng began to use the media to lash out at his critics and to reassert his favorite themes—the fallibility of Mao, the need for "democracy" as a prerequisite for economic modernization, and "seeking truth from facts" as an inviolate principle of Chinese Communism. He attacked as "leftists" those who claimed that the "democracy" movement had gone too far or who had opposed "seeking truth from facts" because it harmed Mao's image.

25X1

Gradually, and probably somewhat grudgingly, these favorite themes of Deng's have won acceptance again in Chinese political life. This has not been an unqualified victory for Deng, however. He has had to temper his views to make them more acceptable to a broader range within the leadership. The fallibility of Mao, discussed less often now, is not treated in terms of specific mistakes he made and always includes an acknowledgment of his overall greatness. The defense of democracy is coupled with a definition of and warnings against such "excesses" as actions and statements derogating socialism. Deng has not been able to revive critical discussion of the Cultural Revolution.

25X1

In the area of ideological reform, Deng has made no effort to tailor his views to suit a wider audience. He has mobilized an impressive array of influential officials to endorse publicly his pragmatic approach. The media readily admit, however, that ideological reform is still being discussed nationwide, and not all propaganda outlets have supported Deng on this issue.

25X1

Although Deng has repeatedly been thwarted in his efforts to remove from the leadership those officials with whom he has crossed swords in the past, and in particular those who are trying to preserve the Mao legacy intact, he continues to chip away at their institutional bases of support. They retain seats, but apparently without specific portfolios, in the ruling councils of the party and government. At the National People's Congress, China's legislature that concluded a two-week session in early July, Deng's opponents were criticized for economic malfeasance as well as political error, but this criticism ultimately was muted and no specific steps were taken against the transgressors.

SECRET

The New Political Balance

The events surrounding the National People's Congress typify a somewhat changed political situation and a new look for the Chinese leadership. The congress focused on the revamped economic development program and gave pride of place to the economic specialists in the leadership. These men, led by party Vice Chairman and new economic czar Chen Yun, have emerged as a new interest group that is committed to economic modernization at a more measured pace than that set by Deng The political power that has accrued to this Xiaoping. group is evident in the new prominence of vice premier Li Xiannian, long the leadership's senior economic specialist, who seems to have inherited some of Deng's functions; Li, for example, has often filled Deng's usual role as host to high-ranking delegations from the United States.

25X1

There is clearly a greater diffusion of influence within the leadership. In addition to the economic specialists, a number of newly rehabilitated victims of the Cultural Revolution played major roles at the congress and won important posts in the government. These men were senior political figures in the past and probably played a central role in current decision-making.

25X1

Premier Hua Guofeng, too, is enjoying enhanced prominence. He gave the major address to the congress, in which he took the middle ground between the extremist views of Deng and those of Deng's chief detractors. middle of the road, Hua's usual position, is also occupied by other leaders, especially the economic specialists. Hua therefore appeared to be speaking for a majority in the leadership. He cautiously embraced Deng's "seeking truth from facts" although he shied away from the bolder aspects of de-Maoization such as the fallibility of the man himself and a negative assessment of the Cultural Revolution. He gave qualified approval to "democratic" activity and emphasized the importance of "unity and stability" to the success of modernization, a notion Deng consistently has ignored in his desire to remove some leaders from office.

SECRET

25X1

The increasing prominence of other members of the leadership underscores Deng's own low profile. He played no role at the congress, the only major event since his return two years ago in which he failed to participate. He undoubtedly supported the congress's outline of a detailed legal code and procedures to give ordinary Chinese a greater sense of participation in their government. He probably also supported the new personnel appointments, but his own closest associates were not named to government positions.

25X1

There apparently has been a deliberate effort to clip Deng's wings a bit to bring him more into line with the views of others in the leadership and to give other officials a more prominent role. Deng apparently will do no more foreign traveling, at least in an official capacity, a decision he revealed even as Hua's oncepostponed trip to West Europe was rescheduled for this autumn. He also appears to have relinquished his position as Army Chief of Staff.

25X1

Deng probably will have some difficulty adjusting to his new role, one that takes him down a few pegs from the perch he used to enjoy but that still leaves him as one of the most influential members of the leadership. He is not confronted with the bitter political rivals of the sort who overthrew him during the Cultural Revolution but with a group of men--many similar to him in age and experience--who share his basic policy concerns but do not necessarily approve of his methods.

25X1

The adjustments to Deng's policies probably enhance the prospects for their survival. It is clear now that the unbridled enthusiasm Deng generated last year would have led to economic disaster had not cooler heads prevailed. Just as important, Deng's inclination to ride roughshod over his weaker opponents would have created rifts in the leadership as wide as those of the recent past.

25X1

The compromises that China's leaders seem to have worked out in recent months do not eliminate the possibility of either economic or political upheavals in the future. Indeed turmoil seems very much in the cards when the current leaders, most of whom are in their seventies, pass from the scene. But for now, the chances for orderly progress toward rational goals have markedly improved.

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

œ

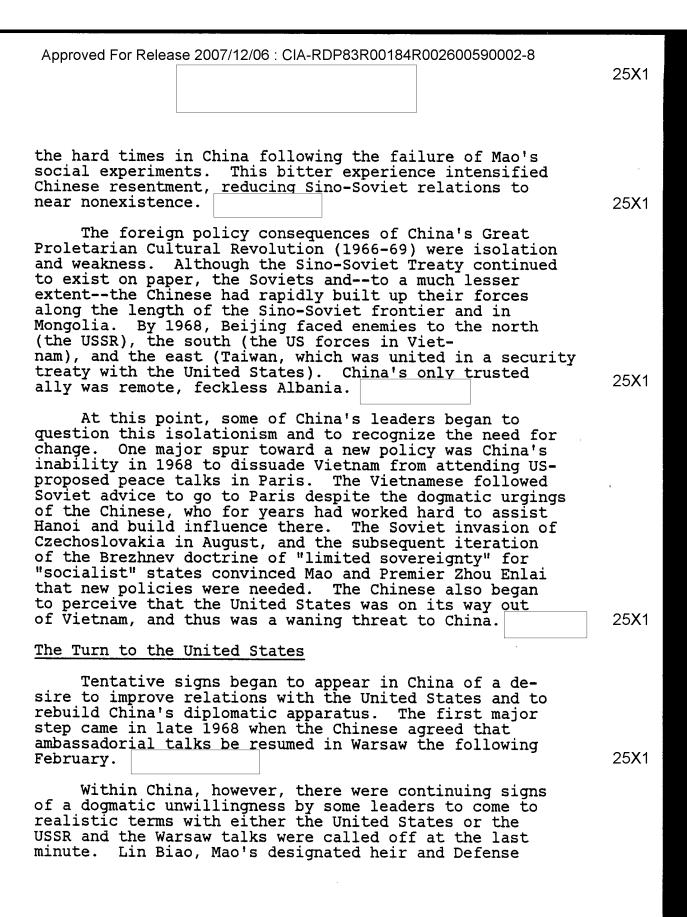
Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25X1
CHINESE FOREIGN POLICY: AN OVERVIEW	
Executive Summary	
During the past two years, China has continued to refine its strategy of maintaining the international status quo by resisting the expansion of Soviet influence. This strategy resulted from China's ideological and military conflict with the USSR that started in the late 1950s. It is based on China's sense of its own weakness and is consequently defensive, but this defensiveness does not diminish China's inherent sense of its own importance or its interest in projecting its influence abroad. A central aspect of this strategy is a political tilt toward the United States, Japan, and Europe designed to offset the Soviet threat to China while Beijing obtains Western credits, technology, and arms for its long-term self-strengthening programs.	25X1
The deterioration of relations with Vietnam has complicated Beijing's planning by imposing increased defense costs, causing large numbers of refugees to flee to China, and inviting a stronger Soviet presence in Southeast Asia. China's invasion of Vietnam in February raised Sino-Soviet tensions to their highest point in a decade.	25X1
Shortly thereafter, Beijing denounced the long-dormant 1950 Sino-Soviet Treaty. To achieve the tactical expedient of reducing the dangerously high level of tension in Sino-Soviet relations, however, Beijing paired its	
This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum was coordinated with the National Intelligence Officer for China, Office of Strategic Research, and the USSR Division of the Office of Political Analysis. Questions and comments may be addressed to	6-11
PA M 79-10345J	25 X 1
	25X1

B-1 TOP SECRET

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25 X 1
denunciation of the treaty with a new call for negotiations with Moscow. The talks that result are likely to be long and arduous. The initiative thus far has not produced any detectable lessening of tension along the Sino-Soviet border.	25X1
Introduction	
Basic to understanding Chinese foreign policy is an awareness of China's perception of threats to its survival. The Chinese have faced threats from menacing and often technologically superior enemies to the north for thousands of years. The Great Wall was the first, monumental effort to keep predatory nomads from swooping down on the agricultural population in the north China plain. In recent centuries the Chinese have also faced threats from the south and along the eastern coast. The Chinese usually dealt with these threats by aligning with the lesser danger to resist the greater.	25X1 ∠ɔʌ।
In the aftermath of World War II and the subsequent civil war, Beijing's hold on the country was still challenged by the Chinese Nationalists on Taiwan. The United States, then indisputably the mightiest power in the world, was seen backing the Nationalists' threat to return to the mainland. At the same time, the Soviet Union, ruled by ideologically like-minded people, was willing to assist the Chinese Communists consolidate their power and modernize their industry and military. Beijing therefore leaned toward Moscow.	25X1
The Sino-Soviet alliance, formalized in a 1950 treaty, was China's insurance policy against the United States, Japan, and the Nationalists. Its importance to Beijing grew when the Korean war erupted and the United States was perceived as preparing to move against China once the Korean Peninsula had been pacified. The Sino-Soviet alliance grew increasingly strained, however, as the Chinese chafed under Soviet efforts to meddle in Chinese politics and to dictate the ideological line.	25X1
The Sino-Soviet Rift	

By the late 1950s, the breach in Sino-Soviet relations was widening rapidly. The Soviets abruptly halted their assistance programs and demanded repayment despite

B-2



B-3

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8			

Minister, was among those who preferred a go-it-alone policy that would have put increased power into his hands as Defense Minister. This unwillingness to make commitments to foreigners went beyond mere jockeying for power. In a deeper sense, Lin appealed to a conservative tradition in Chinese thought that has appeared in every generation, one that is repelled by close relationships with outsiders and is deeply suspicious of introducing foreign ideas into China.

25X1

25X1

In 1969-71, Mao and Zhou moved to isolate Lin Biao politically. Their efforts were aided by the first major armed clash along the Sino-Soviet border in March 1969, and an even more intense firefight on the border the following August. These events demonstrated China's vulnerability to Soviet military pressure and the need for lines to other countries. A new call then went out for the Warsaw talks to begin, and anti-US commentary diminished in the Chinese media. Zhou Enlai also moved diplomatically to manage Sino-Soviet tensions by agreeing to meet Premier Kosygin at Beijing's airport in September 1969, and by setting up a framework for border talks which still continue sporadically. Outmaneuvered, Lin Biao died in an abortive coup attempt against Mao in late 1971.

25X1

In the period 1971-73, China made rapid diplomatic gains, displacing Taiwan in the United Nations and opening relations with a broad range of countries. China essentially stopped putting its foreign dealings to an ideological test. It showed a strong preference for the status quo, urging countries to form regional groupings to resist Soviet inroads. There are variations on this theme, such as in southern Africa, where China supports change but opposes Soviet influence. Beijing's primary concern was and still is that the influence of the Soviet Union be contained and not permitted to develop into an overwhelming preponderance of power--or "hegemonism." A corollary of this Chinese view is that the United States should not allow its strategic position to erode vis-a-vis the USSR.

25X1

As Mao and Zhou physically declined after 1974, there were fewer foreign policy initiatives. Jockeying for the succession to Mao increasingly occupied the leadership and politicized foreign affairs. After the

death of Mao and then the arrest of the radical Gang of Four in October 1976, the way was once again cleared for an activist foreign policy. By mid-1977, Deng Xiaoping, who had fallen in early 1976, returned to power and immediately set about restoring momentum to China's foreign policy.

25X1

The "Theory of the Three Worlds"

To justify this pragmatic strategy in ideological terms, Beijing published "Chairman Mao's Theory of the Three Worlds" in November 1977. This document elaborated the policies initiated in 1969, arguing that the USSR constitutes the "main danger" to world peace and that a "united front" of countries opposed to the USSR was needed to counter this danger. This "antihegemonist united front" is to include the less developed countries of the "third world" and the developed countries of the "second world." The role of the United States, as one of the "superpowers" in the "first world," remains ambiguous, suggesting that as long as it does not replace the USSR as the "main danger," it is welcome to join in resisting the Soviet Union.

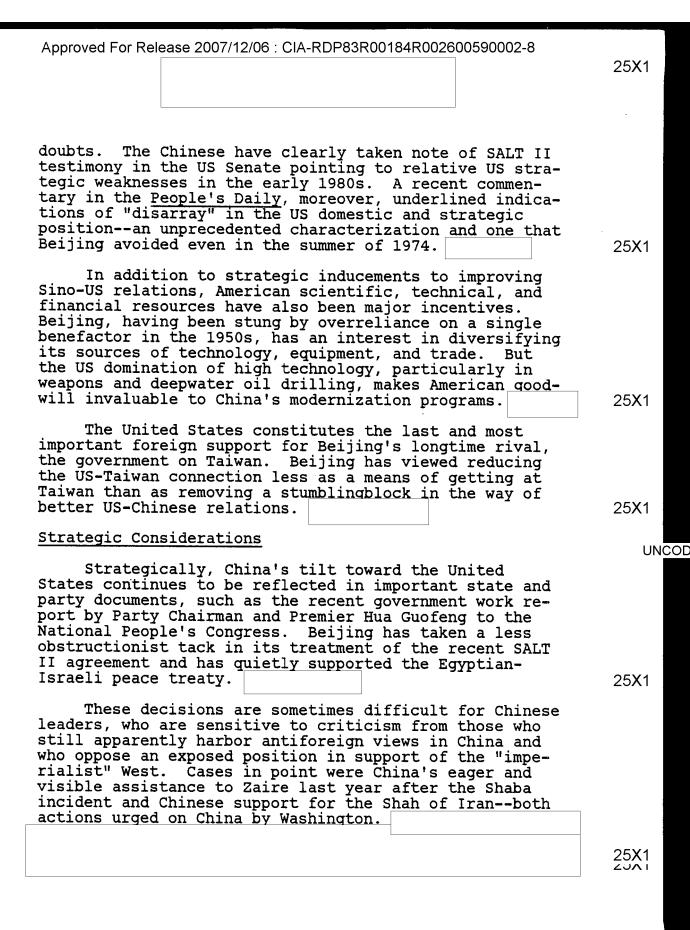
25X1

Until China acquires sufficient power and prestige to counter the USSR more directly, it is forced by circumstances to rely on the United States as the main pillar of its strategy. The Chinese recognize that, in order to make this strategy work, the United States and China must cooperate, at least to the point where Soviet defense planners become unsure to what degree the two countries would cooperate during a Soviet crisis with either of them. Theoretically, each side in the triangle can attempt to improve relations with another in order to extract advantage from the third. In late 1977, for example, China tried to demonstrate its maneuverability in the triangle by making small but conspicous gestures to the USSR. In practice, however, China's vulnerability to Soviet power has left little room for maneuver.

25X1

Chinese calculations, nevertheless, are based upon the assumption that the United States is a fairly reliable partner with which it can cooperate in attempting to contain Soviet power and pressures. Doubts on this issue led to strains in the nascent relationship in the 1974-76 period. Recent developments could renew such

B-5
TOP SECRET



B-6

The Chinese also remain fundamentally resistant to enticements into disarmament negotiations. Their position, simply put, is that China should not freeze its military strength into permanent inferiority by joining in agreements with militarily superior powers. Therefore, Beijing argues that genuine disarmament must begin with destruction of the weapons that give the United States and the USSR their edge over lesser powers. Anything less is "sham" disarmament.

25X1

In order to "catch up," the Chinese continue nuclear testing, usually in the atmosphere. They are somewhat sensitive to criticism of this practice, but we believe they lack the means at present to conduct their testing entirely underground. In difference to the wishes of the United States and others, the Chinese have asked that their seat be reserved at the UN Disarmament Conference in Geneva, and observer delegations have been sent to the sessions. Beijing remains unwilling, however, to take an active part in the talks for fear of eroding its principled position concerning disarmament.

25X1

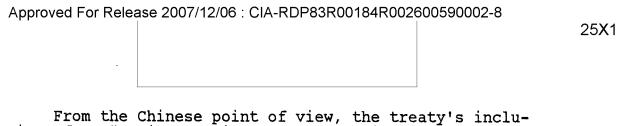
Beijing is also very skeptical about the mutual and balanced force reduction talks in Vienna, emphasizing in its media the inability of the conference to resolve important East-West differences. The MBFR talks are a matter of concern for the Chinese because the possibility of agreed troop reductions raises the specter that the Soviets will transfer larger forces to China's borders.

25X1

Similar geopolitical considerations influence Chinese views on the Western energy crisis and the political instability in the Middle East and Africa. Beijing fears that, as a result of the energy problem, economic weakness and disunity in the West will strengthen the Soviet hand, inviting adventurism and inevitable war. The Chinese see the Soviets attempting to foster European, Japanese, and US weakness by fomenting and taking advantage of political instability in southern Africa, the Horn of Africa, and th Middle East in hopes of gaining control of the major oil routes. Beijing maintains that war can be postponed through concerted anti-Soviet efforts, but the accent in China's propaganda falls heavily on the possibility the West will not meet the

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25X
challenge. The unspoken final portion of the Chinese argument is that, after Europe, the next Soviet target would most likely be China. Thus, as China's leaders have stated Beijing within its limited capabilities must do its part to counter the Soviets. Military assistance to Egypt, including warplanes and spare parts, is a recent example.	25X
Policy Toward Taiwan Since Normalization	
Normalization of US-China relations has reduced, but not eliminated the importance of the Taiwan as a divisive issue. For Beijing the economic and strategic elements in Sino-US relations still take precedence over the recovery of Taiwan. The evolution of closer relations with Washington has been accompanied by a moderation of Beijing's rhetoric on the issue and a shift in emphasis to political and economic approaches to recovery of the islands which the Chinese consistently say will not come for some time. Beijing has adopted a more open stance toward the government on Taiwan, which it now calls the "Taiwan authorities" rather than the pejorative "Taiwan clique." China has called for talks and the opening of trade and postal and aviation services. Some small but politically significant reductions in military strength have occurred opposite Taiwan.	25X
This more moderate approach, however, does not include abandonment of the "right" to use force to reunify Taiwan with the mainland, or any relaxation of China's claim to sovereignty over the island. Nevertheless, the importance of other international and economic goals and military deficiencies makes a Chinese attack on Taiwan unlikely at least for much of the next decade.	
New Links to Japan	
As China was making major gains in its relations with the United States, it also moved rapidly in 1978 to achieve the Sino-Japanese Peace and Friendship Treaty. The treaty was a milestone on China's road to economic development and it established a political basis for relations, ending the theoretical state of war between the two countries.	

25X1



From the Chinese point of view, the treaty's inclusion of an "antihegemonism" plank, despite intense Soviet pressure on Tokyo, helped dissolve strong memories of the Japanese invasion and occupation of China. In order to facilitate movement toward the treaty, both sides agree to put off to "later generations" the thorny question of the disputed Senkaku Islands south of Japan and near Taiwan, which are widely believed to bear oil. The Chinese also agreed to end the explicitly anti-Japanese 1950 Sino-Soviet Treaty, although the method of terminating the treaty was left unclear at the time.

25X1

Having laid this political foundation, the Chinese are building close economic relations with Japan. They recently obtained substantial loans and development assistance from the Japanese Government and banks to finance industrial and mineral extraction projects. In exchange for this enormous contribution to China's modernization program, Japan is expected to receive oil, coal, nonferrous metals, and light industrial products.

25X1

China's Vietnam Problem

As China laid the ghosts of its former enemies, the United States and Japan, new specters arose. Vietnam, traditionally suspicious of its northern neighbor and deeply antagonized by China's support of the Pol Pot regime in Kampuchea, demonstrated its unhappiness with Beijing early last year by kicking off a campaign to drive potentially disloyal ethnic Chinese out of Vietnam, starting the great Indochina exodus. By May 1978, the Chinese were viewing the situation with alarm.

25X1

The Refugee Problem

The Chinese are still faced with enormous numbers of refugees entering the country from Vietnam. By mid-1979, top Chinese officials claimed that more than 250,000 refugees, mostly ethnic Chinese, had been processed into China and that more than 10,000 per month were still crossing the border. The economic burden

B-9

created by this massive influx is obvious. In addition, there are some signs that the dislocations caused by the heavy concentration of refugees in some parts of South China have created resentment and opposition among local residents.

25X1

Beijing has seized on the refugee issue as a means to bring international pressure on Hanoi. From China's perspective, it is an example of Hanoi's oppressive internal programs and its expansionist foreign policies. China sees the refugee problem, not as a disease that can be treated externally, but as something only Hanoi can correct. Beijing has tried to broaden the issue further by linking the USSR with Vietnam's treatment of ethnic minorities. Thus, both Moscow and Hanoi are described as attempting to sow racial dissension and economic chaos in neighboring Southeast Asian countries by forcing ethnic Chinese onto these countries. Chinese are not sympathetic with proposals to facilitate the relocation of larger numbers of refugees, arguing that it would only encourage Hanoi to continue expelling them. Instead, they have sided with some members of the Association of Southeast Asian Nations (ASEAN) in demanding that Hanoi halt the flow of refugees altogether.

25X1

While the Chinese express support for humanitarian proposals aimed at a speedy resettlement of the existing refugee population, these proposals clearly take a back seat in Beijing's view to steps that would bring pressure on Hanoi to end its persecution of ethnic Chinese. The Chinese hope to achieve this objective by encouraging a unified anti-Vietnamese stance on the refugee issue among ASEAN countries, and a policy of no economic support on the part of Western countries and Japan. Beijing, therefore, has been pleased with the unwillingness of the United States to recognize Hanoi and by Japan's reluctance to get deeply involved in economic aid to Vietnam.

25X1

Anti-Vietnam Strategy

China's broader strategy for dealing with Vietnam goes beyond the refugee issue, however, and attempts to use the limited resources of China and other Southeast Asian nations to maintain political, economic, and

B-10

military pressure on Vietnam. The Chinese, who had long looked to Kampuchea as a counter to the growth of Vietnamese influence in the region, found themselves reduced to making a last-ditch effort in December 1978 to aid the failing Kampucheans. Despite escalating threats from China, and increasing numbers of Chinese forces on the Vietnamese border, the Vietnamese had pushed into Phnom Penh by early January and triggered China's decision to take direct action and invade.

25X1

Chinese party documents published in December suggested that Beijing then believed that the normalization of Sino-US relations and the newly strengthened ties with Japan would strengthen China's hand against Vietnam and the Soviet Union. Hanoi and Moscow had signed a Treaty of Friendship and Cooperation in November, and Beijing sought to convey the impression its new links would offset this Vietnamese advantage. Vice Premier Deng was a strong advocate of the invasion of Vietnam, and his trips to the United States and Japan in late January and February were calculated, in part, to create the impression of US and Japanese support for China's pending action.

25X1

Deng cautiously prepared for the invasion by ensuring a vast numerical superiority, evacuating civilians from wide stretches of Chinese territory bordering the Soviet Union in case of Soviet retaliation, and proclaiming limited objectives. He recognized that the invasion could not reverse the situation in Kampuchea, that it could not be prolonged without unacceptable damage to the economic modernization program, and that it was unlikely to reverse Vietnam's anti-China policies. Deng rationalized nonetheless that it was necessary to do "something" lest the Vietnamese and Soviets think there would be no negative consequences for their actions and the West would begin to think China does not "mean what it says."

25X1

In the event, these calculations appeared to be approximately correct. China invaded and then withdrew in what appeared to be a determined, orderly fashion. The Soviet Union proved unwilling to retaliate directly. China then reinvigorated its broader anti-Vietnamese strategy of urging the ASEAN states to unite against the Vietnamese, imposing political and economic isolation on Hanoi, and periodically threatening a "second strike" against Vietnam.

B-11

TOP SECRET

It has in fact withdrawn considerable forces from the immediate border area, but insists on impossible terms in the Sino-Vietnamese negotiations that began after the Chinese withdrawal, waiting for the Vietnamese to crack under the internal and external strains.

25X1

Sharp Debate in Beijing

Despite the appearance of a "diplomatic success" in the invasion, an intense internal debate erupted. Even before the invasion, some in China were questioning the Army's capability to do the job or handle possible Soviet retaliation. After the invasion, stories of high, almost Pyrrhic casualty rates circulated in China, and there were complaints about the quality and utility of the Army's equipment. So intense was the argument that six weeks passed after the end of the invasion before the party was able to muster a leadership turnout to congratulate the heroes of the fighting.

25X1

A second factor was the economic costs of the invasion. Economic readjustment was already under way in China when the invasion was launched. Overly ambitious programs were being scaled down and budgets were cut. The Chinese recently revealed, however, that the defense budget for 1979 had to be increased 20 percent, in large part to pay the direct costs of the invasion.

25X1

Third, the organizers of the invasion were vulnerable to charges that in the most important area of concernthat of the Soviet threat to China-they had strengthened the Soviet position. While China's troops were still withdrawing from Vietnam, it was already becoming clear that relations between the Soviets and Vietnamese had become much closer as a result of the attack. Soviet military aircraft and warships for the first time enjoyed access to Vietnamese facilities and Vietnam had become more dependent than ever on Soviet assistance.

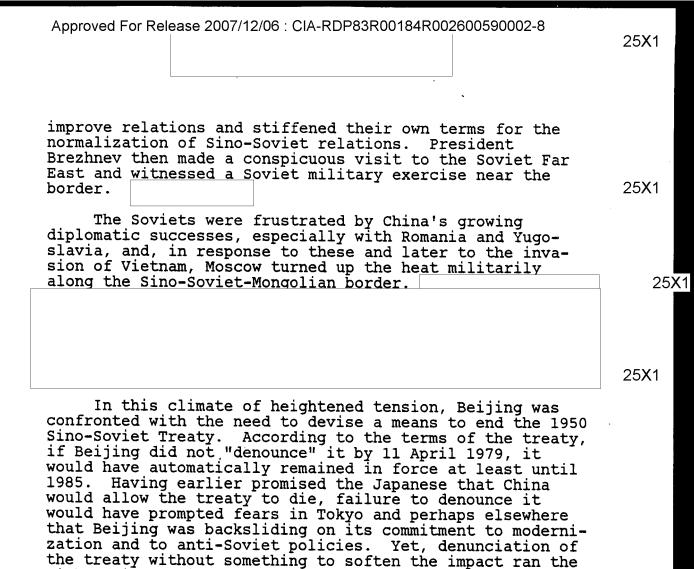
25X1

The Call for Talks With the USSR

Internal criticism of Beijing's Vietnam invasion arose at a crucial time for China's broader diplomatic strategy. From early 1978, tensions between Moscow and Beijing had been rising steadily. The Chinese turned aside a Soviet proposal in February 1978 for talks to

B-12

TOP SECRET



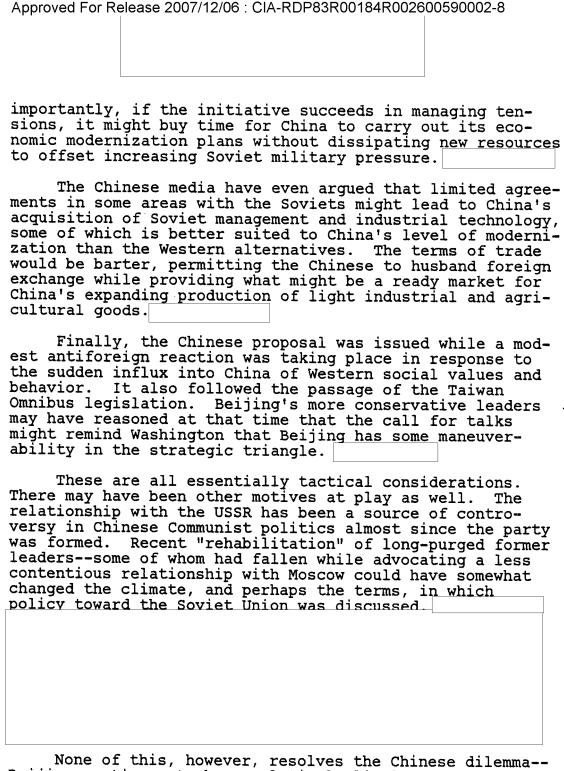
Consideration of this question coincided with criticism within China of the Vietnam invasion, producing a sharp debate over the immediacy of the Soviet threat and China's domestic needs. In the end, the Chinese decided to pair their denunciation of the treaty with a call for negotiations with the Soviets. Beijing apparently reasoned that the denunciation would reassure Japan and the West about China's fundamental strategic orientation, but that the Soviets, after years of issuing their own calls for talks, would find the Chinese offer irresistible. Soviet willingness to talk in turn might prompt Vietnamese fears of a Soviet sellout of Hanoi's interests. The proposal had the added advantage of portraying the Chinese as "reasonable" in the wake of the Vietnam invasion. Most,

25X1

risk of increasing Sino-Soviet tensions even more.

B-13

TOP SECRET



25X1

25X1

25X1

None of this, however, resolves the Chinese dilemma--Beijing continues to have relatively little room for maneuver. It is even possible that such senior leaders as

B-14 TOP SECRET

B-15

TOP SECRET

text, Chinese officials remain adamantly opposed to the

Approved For Release 2007/12/06: CIA-RD	P83R00184R002600590002-8
	25X1
spread of Soviet influence and	ower. The Chinese speak
in terms of very long negotiation	ns. Without some hint of
Chinese concessions to keep the progress is not likely. Indeed	Soviets interested, real
an evolution in Chinese domestic	politics as on strictly
international factors.	25X1

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

CHINA: THE ECONOMIC OUTLOOK

Executive Summary

This year, and in 1980-81 as well, China's post-Mao leadership will be concerned primarily with realigning its long-term program for economic modernization. The leadership's reassessment of pace and priorities was summed up by Premier and Party Chairman Hua Guofeng at the National People's Congress (NPC) in late June:

The work of recovery and development in the previous two years (1977-78) has yielded results far in excess of our expectations. But the grave effects of the sabotage by Lin Biao and the Gang of Four cannot be eliminated in a short period. We did not take this into full account and some of the measures we adopted were not sufficiently prudent. [As a result, it is] absolutely necessary that we concentrate our efforts within these three years [1979-81] on readjusting, restructuring, consolidating, and improving our economy. [Emphasis added]

Aside from the forthright discussion of current difficulties, Hua and other officials gave out an unprecedented number of economic statistics that generally confirm their appraisal of economic recovery in 1977-78. On the other hand, the new policies are forcing a slowdown this year in the rate of growth of industrial production and a sharp reduction in budgetary appropriations for capital investment projects. For the first time in many years, China's managers have been directed to emphasize quality, product mix, and cost effectiveness rather than sheer output.

This unclassified memorandum was prepared by the China Division of the Office of Economic Research, National Foreign Assessment Center, in response to a request from the National Security Council. Questions and comments may be addressed to

The five major objectives under the slogan of readjustment center around:

- -- Praising growth rates for foodgrains and other farm products in relation to population and industry.
- -- Increasing the growth rate of consumer goods production, both for domestic consumption and to expand exports.
- -- Assigning higher priority to energy, transportation, and communications.
- -- Cutting back an "overextended" investment program so as to concentrate resources on completing vital projects.
- -- Raising the incomes of rural and urban workers.

The new policies of restructuring and consolidating require an "overall reform of the structure of economic management." While efforts in this regard are still experimental, they apparently are expected to evolve into some uniquely Chinese model of market socialism in which local authorities are given greater powers over planning, investment, finance, material supply, and foreign trade. Policies in the improvement category are aimed at raising labor productivity and capital efficiency.

Despite the revamping of economic strategy, China's leaders insist that their need for foreign equipment, technology, and capital remains large. What is new is that their shopping list now is more practically focused, reflecting a better appreciation of the high costs of acquisition and the difficulties in absorbing foreign technology.

The comprehensive character of all that Beijing is attempting to accomplish in 1979-81 has inevitably upset the targets and timetable of the 10-year plan for 1976-85 announced early last year by Chairman Hua. That plan-or "draft outline" as Hua now calls it-has been declared overly ambitious and hastily conceived; neither it nor its first phase, the Fifth Five-Year Plan (1976-80), are given much mention at present. The State Planning Commission, having revised the original version of the

annual plan for 1979, is currently reworking earlier plans for 1980 and 1981. A draft of the Sixth Five-Year Plan (1981-85) will not be presented to the NPC until sometime in 1981.

Finally, we believe that the policies of realignment and retrenchment may be in place longer than the three years now envisaged:

- -- Institutional changes proposed under the new policies seem too far reaching to be completed so quickly.
- -- Leadtimes required for bringing new investment projects into production in bottleneck sectors are such as to make it unlikely that these constraints will be lifted by 1981.
- -- In a country as poor and populous as China, the problem of matching supplies to consumer demand will necessarily be around for a long time to come.

Nevertheless, there are grounds for optimism. In contrast to the Maoist era, the present leadership seems pragmatic and relatively unconstrained by orthodox ideology in its policy choices. And, perhaps most important of all, it has already demonstrated this year an ability to react quickly to adverse consequences of these policy choices.

Economic Performance in 1976-79

One of the milestones distinguishing the recent National People's Congress from all others since the late 1950s is the public disclosure of major speeches and a large body of economic and social statistics. Although most of the data cover only the years 1977 and 1978, enough information was provided to show the performance of key economic sectors in 1976 as well. Some data also were released on planned targets for 1979.

A comparison of the new figures with CIA estimates shows that our appraisal of recent economic trends in China has been close to the mark. This is not surprising inasmuch as our estimates have been attempts to reconstruct official data from piecemeal claims of percentage increases

and other fragmentary disclosures. The new official data appear internally consistent, and we expect to adopt nearly all of the figures as the best available.

In interpreting the tabulation of selected official data presented here (see table), a word of caution is in order. The use by Hua and others of 1976 as the base year for much of the data is logical because it marks the point where the present leadership came into power. It was a poor year economically, however, and thus constitutes a low base. Moreover, much of the output in major basic industries is admittedly of poor quality; for example, nearly half of the 618 million tons of coal produced in 1978 probably came from small-scale mines whose output is of variable and generally low quality. Nevertheless, a number of economic trends stand out at once:

- -- Industrial output began a rapid recovery in 1977, whereas agricultural production continued to stagnate; in 1978, both had remarkably good years.
- -- Budget revenues and expenditures, which normally change at about the same rates as industrial production, rose much faster in 1978 than did industry.
- -- With the notable exception of domestic and foreign trade, plans for 1979 reflect a marked slowdown in rates of expansion.

Reasons for the slowdown in 1979 are not hard to find. Last year was an especially good one for grain production—one that is unlikely to be repeated this year. In industry, most of the capacity that stood idle in earlier years has been brought back into operation, so that double—digit growth in 1979 seems infeasible. In addition, many industries—most notably the iron and steel industry—have been ordered to concentrate on improving product quality and product mix rather than increasing output. As for the budget, expenditures and revenues in 1979 are to level off, reflecting what China's Finance Minister has described as an extremely tight budget. Revenues will be cut into by a number of new incentive policies affecting tax flows, and expenditures are to be held to a minimum as part of a wide-ranging scaleback in investment projects.

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

China: Selected Official Data on Economic Indicators, 1976-79

						•			
							Percent	age changes	
						1977	1978	1979 Plan	Mid-1979
		1976	1977	1978	1979 Plan	Over 1976	Over 1977	Over 1978	Over Mid-1978
1	/alue Aggregates*								
-	ratue riggregaces								
	Billion yuan in 1970 prices								
	Agricultural production	NA	134.0	145.9	151.7	NA	8.9	4.0	NA
	Industrial production	326.4	372.8	423.1	456.9	14.3	13.5	8.0	4.1
	industrial production	320.4	372.0	423.1	430.3	14.5	13.3	0.0	4.1
	Billion yuan in current prices								
	Budget revenues	75.1	87.45	112.1	112.0	16.4	23.4	Negl.	NA
	Budget expenditures	NA	84.35	111.1	112.0	NA	31.2	Negl.	NA
	Retail sales	131.68	141.00	152.75	175.0	7.1	8.3	14.6	NA NA
	Metall Sales	131.00	141.00	132.73	1/3.0	7.1	0.3	14.0	IVA
P	Physical Output	•							
~									
	Grain (million tons)	285.0	282.75	304.75	312.5	Negl.	7.8	2.5	NA
	Cotton (million tons)	NA	2.049	2.167	2.4	NÁ	5.8	10.8	NA
	Crude steel (million tons)	20.46	23.74	31.78	32.0	16.0	33.9	Negl.	7.9
Ģ	Electric power (billion								
ம்	kilowatt hours)	203.0	223.4	256.55	275.0	10.0	14.8	7.2	10.9
	Coal (million tons)	483.0	550.0	618.0	620.0	13.9	12.4	Negl.	NA
	Crude oil (million tons)	87.0	93.64	104.05	106.0	7.6	11.1	1.9	3.6
	Chemical fertilizer	-,,-			2000	,		1.,	3.0
	(million tons)	5.24	7,238	8.693	9.570	38.1	20.1	10.1	NA
	Motor vehicles (thousand		,,,,,,,		,,,,,	30.1		1011	••••
	units	NA	125.4	149.1	NA	NA	18.9	NA	NA
	Freight cars (thousand	****	123.1	147.1	1421	1471	10.7	IVA	NA.
	units	NA	6.396	16.950	NA	NA	165.0	NA	NA
	Cotton cloth (billion	1421	0.330	10.550	MA	IIA	103.0	IIA	NA
	meters)	NA	10,151	11.029	NA	NA	8.6	NA	NA
	Sewing machines (million	MA	10,131	11.023	NA	IVA	0.0	IVA	NA
		NA	4,242	4.865	NA	NA.	14.7	0 6	177
	units) Wristwatches (million	IVM	4.442	4.003	INA	INA	14./	8.6	NA
		NA	11.04	13.51	NA	373	22.4	10 7	
	units	NA	11.04	13.31	NA	NA	22.4	12.7	NA

^{*} The official exchange rate in recent months has averaged about 1.6 yuan per US dollar. $N_{\rm h}$ = Data not available.

After the flood of statistics released for 1977-78, China's reporting on economic performance in the first half of 1979 looks curiously thin, apparently because prospects are mixed. The country reportedly had a good winter wheat harvest, but it is too soon to gauge agricultural performance for the entire year. Industrial production rose by only 4.1 percent as compared with the first half of 1978, meaning that second-half performance must be well above the 8 percent planned for 1979 as a whole.

Current Problems and Policies

The proceedings of the National People's Congress formalized policies of economic realignment and retrenchment that have gradually come into force since the third plenum of the Chinese Communist Party in December 1978. The Chinese leadership now is clearly much more concerned with short-term economic problems than with ambitious long-term economic goals such as those embodied in the "draft outline" of the 10-year plan unveiled in March 1978. Thus, while Chairman Hua recently spoke of a three-year period of readjustment (1979-81), only the annual economic plan and planned budget for 1979 were presented for discussion at the NPC.

Domestic economic policies are aimed at rectifying a number of longstanding problems that remain major obstacles to eventual Chinese modernization. These include:

- -- The need for improved consumer welfare both to stimulate labor productivity and to ensure that poor living conditions do not contribute to political instability.
- -- Amelioration of the currently high level of urban unemployment, particularly among youths who cannot now be absorbed in the schools and universities.
- -- Raising the low level of productivity of labor and capital that has prevailed for the past decade.
- -- Alleviation of the chronic shortages of raw materials, electric power, and transportation capacity that constrain industrial performance.

-- Elimination of the waste of resources engendered by ill-conceived investment programs.

Solutions to these problems are still evolving, mainly because of the present leadership's desire to test new policies on a trial basis. Nevertheless, these problems are being tackled by (a) introducing new incentive and institutional systems and (b) changing the pattern of resource allocation. Under the former, agricultural procurement prices have been raised and the prices paid by peasants for industrial goods have been lowered. In addition, rural production teams have been given greater latitude to decide what crops will be grown and how much will be planted. Similarly, new systems of improved worker and management incentives are being installed in industry, transportation, and other services. The systems have not been in effect long enough to judge their impact on production.

The government is well aware of the impact these policies have on incomes and the demand for consumer goods. Thus, it is attempting to ensure--through new investment and increased allocation of energy and raw and finished materials -- that the supply of such goods from agriculture and light industry will more adequately meet the new demand. In addition, Beijing is experimenting with numerous new systems of industrial organization and management--for example, a contract system (to govern how and when goods are to be produced and delivered among supplying, producing, and marketing units) and the creation of so-called "specialized corporations" -- all of which are designed to increase efficiency and productivity. Progress in this area will remain slow because party, government, and enterprise bureaucracies are resisting changes and individual cadres remain unsure of the permanence of the new policies. Indeed, one of Beijing's major challenges is that of motivating middle-level managers to act decisive.

As for resource allocation, cutbacks have already been ordered in those parts of the construction program that have been poorly designed or that will pay off only over the very long term. Since December 1978 priority in investment has been given to agriculture, light industry, and textiles because of their importance to consumer welfare and to the expansion of Chinese exports. Energy, transportation, and the building materials industry appear to be next in line in resource allocation

decisions because these sectors constrain the operations of industry in general and because they support the scaled back, but still sizable, construction program now under way.

Despite the revamping of economic strategy over the past several months, Chinese interest in foreign equipment, technology, and capital remains strong. However, it is now more practically framed, reflecting the leadership's understanding that both the costs of acquisition and difficulties in absorbing foreign technology are much greater than previously anticipated.

Short-Term Prospects

The policies developed at the third plenum in December 1978 and now formally ratified by the NPC have been described by the Chinese as "preparing the ground" for eventual modernization. They appear to be well designed, practical measures that probably will mitigate some of the problems noted above.

Perhaps the most difficult problem for the government over the next three years will be that of handling rising consumer expectations. Notwithstanding repeated insistence that consumer welfare can be improved only gradually and should be preceded by increased productivity, the new policies are stimulating long-suppressed popular demand for more and better quality food, clothing, housing, and consumer durables.

One indication of the strength of this demand is that, despite low interest rates over the past two decades, urban and rural bank savings have steadily risen. The size of these deposits is unknown but they clearly are large enough to have become a serious concern for the government. In March the government abandoned the old system of paying a uniform annual interest rate for fixed deposits regardless of term and installed a system of six-month, and one-, three-, and five-year time deposits. In addition to inhibiting the withdrawal of funds from these accounts, the new higher interest rates are also intended to attract more of the increased money income that is beginning to be received by the population. We suspect that the government will find this problem of matching supplies to consumer demand a continual one for the foreseeable future.

Providing employment for youths of high school and college age who cannot be absorbed by the educational system is also likely to remain a difficult problem. Although expansion of educational facilities has not been slighted under the new policies, resources are simply inadequate to provide space for several million junior and senior middle school graduates. The current attempt to create new jobs in the services sector seems unlikely to satisfy the ambitions of this group. We suspect that they will continue to be a problem for Beijing's leaders, primarily because they are a potential source of political dissent.

Finally, the policies of realignment and retrenchment may well extend beyond the three-year period now envisaged. The number and scope of changes proposed under the new policies seem too great to be rapidly accomplished. The leadtimes required for adding new capacity in the energy and transportation sectors also make it unlikely that present bottlenecks will be removed by 1981. Nevertheless, we believe the odds favor the general success of new policies because they embody an unprecedently rational approach to China's economic problems. As compared with that of the Maoist era, the present leadership appears to be much less bound by ideological constraints in its policy choices and more thorough in its consideration of new policies, and to have demonstrated its ability to react quickly to new problems created by the policies.

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

D

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
Approved For Release 2007/12/00 : CIA-RDF63R00164R002600390002-6
CHINA'S FOREIGN ECONOMIC RELATIONS:
POLICIES AND PROSPECTS
Executive Summary
In December 1978, China reached a crossroads on its path to economic modernization. Its headlong rush into a program to develop the economy through massive infusions of advanced Western technology and equipment involved staggering sums. Chinese commercial delegations abroad had inquired into or negotiated for at least \$80 billion worth of foreign capital equipment. The Chinese had signed contracts amounting to \$7 billion, including \$5 billion in one 10-day stretch in December. Such a hectic pace could not continue because China was rapidly exhausting its foreign exchange reserves.
Following the December plenum of the Chinese Communist Party, Beijing called a halt to the buying spree while China's leaders reassessed the entire direction and scope of the modernization program. In February, Beijing not only halted ongoing negotiations for new plants but also suspended some \$2.6 billion worth of plant contracts signed with Japanese firms after 16 December. Foreign businessmen were told not to expect a resumption of contract talks until the second half of 1979.
The reassessment was apparently completed by June. Late that month the National People's Congress (NPC) met to ratify the decisions made by Beijing's leaders during the interlude. The choices made will have major implications for China's foreign economic relations for years to come.
This memorandum was prepared by the China Division of the Office of Economic Research, National Foreign Assessment Center, in response to a request from the National Security Council. Questions and comments may be addressed to
25X1

25<mark>X</mark>1

25**X**1

25X1

25X1

25X1

25**X**1

D-1

SECRET

25X1

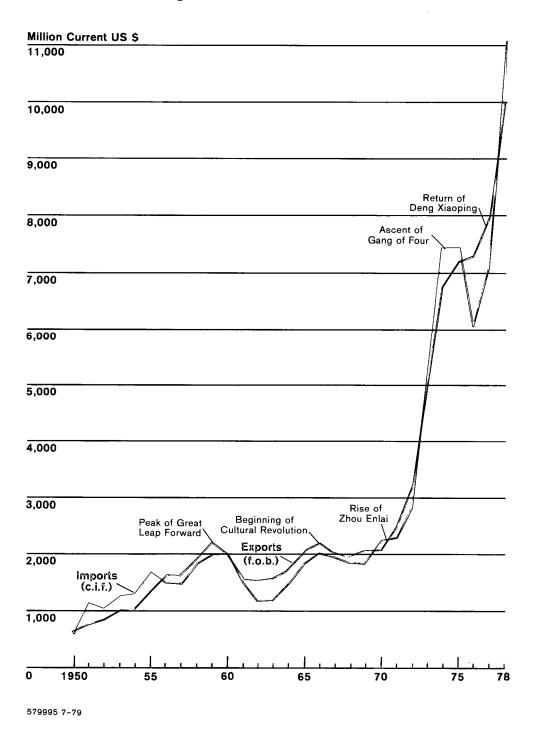
First, Beijing decided that greater "balance" was needed between the various sectors of the economy. Beijing would scale back investment in heavy industry in order to provide more funds to agriculture and light industry. While this undoubtedly means that Beijing will postpone its plans to purchase several steel mills from abroad--and probably other major development projects as well--it does not mean that China is shelving its modernization plans and returning to the inward-looking policies of the past. Indeed, Beijing has committed itself to expanding trade by developing new export industries. Chinese leadership believes that channeling more funds into light industry will produce a greater and more immediate return on the investment, and substantially boost foreign exchange earnings. Moreover, Beijing has advanced its plans to purchase electric power plants, transportation and communications facilities, and other equipment to develop China's economic infrastructure.

Second, in announcing to the NPC that China planned to borrow foreign funds to finance a large portion of its capital imports, Beijing formally broke with the Maoist dictum which held that foreign indebtedness could not be condoned. (Vice Premier Yu Qiuli told the NPC that China planned to run a record \$3.5 billion trade deficit this year.) Long before the NPC met, China's intention to engage in debt financing had become apparent. From December 1978 through May of this year, China arranged credit lines totaling more than \$25 billion. The NPC merely gave its sanction to this policy.

Finally, the NPC approved a law which would permit, for the first time, direct foreign investment in the form of joint ventures between Chinese corporations and private foreign firms. Under some circumstances, foreigners may even be allowed to hold 100-percent equity in plants located in China. This policy absolutely reverses the Maoist stance on the question of foreign ownership of the "means of production" in the Chinese economy. Lacking any track record, it is difficult to forecast how much foreign capital China will be able to attract by this means. Only four other Communist countries (Poland, Hungary, Romania, and Yugoslavia) have permitted joint ventures, but none allow 100-percent foreign equity;

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25 X 1
and there the results have been mixed. In China's case, however, an abundant labor supplyand low wagescould prove to be a major attraction to Western investors. In the long run, this step could have a significant impact.	25 X 1
The new Chinese administration has clearly staked its political future on economic modernization. The viability of the program will depend largely on the skill of China's planners in arranging for the systematic absorption of foreign technology and raising the foreign exchange needed to help meet the bills.	25 X 1
Foreign Economic Policy in Perspective, 1949-76	
China's foreign trade and financial affairs from 1949 to the present must be viewed within the context of its general political and economic objectives: internally, to modernize a backward economy and to preserve and strengthen the "democratic dictatorship" of the Communist Party; internationally, to safeguard the country's independence and to gain "big power" status by building political, economic, and military strength. Since the founding of the People's Republic, China's trade has advanced in fits and starts. In general, trade has followed the changing fortunes of the domestic economy, rising during periods of political stability while suffering from the setbacks of the Great Leap Forward, the Cultural Revolution, and the struggle or nower between 1974 and 1976. (See trends chart.) UNCODED	25X1 25X1
During the first decade of Communist rule, China's great concern with achieving "economic independence" was shaped largely by unhappy experiences in its earlier contacts with foreign powers. Following the rupture of Sino-Soviet relations in 1960, Beijing put even more stress on the goal of achieving economic "self-reliance." Nan Hanzhen (Nan Han-chen), chairman of the China committee for the Promotion of International Trade in 1964, defined self-reliance in this way:	
It means that a country should manufacture by itself all the products it needs whenever and wherever possible It also means that a country would carry on its general economic construction on the basis of its own human, material, and financial resources.	25X1

China: Trends in Foreign Trade



Approved F	or Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
In promic inde	ractice, China's policies of maintaining "eco- ependence" and "self-reliance" have meant that:
	It has had comparatively little interchange with or integration into the world economy. Since the early 1950s China's exports have never amounted to more than 1 percent of the world's total. Exports normally have amounted to only about 2 percent of China's gross national product.
·	Exports have been spread over a wide range of commodities and markets, so that adverse foreign economic developments would have minimal impact on foreign trade; because Beijing earmarked for export a small portion of almost everything produced in China, the commodity composition of China's exports has reflected the makeup of the domestic economy. (See charts on geographic distribution and commodity composition of trade.)
	Imports have been used basically to overcome bottlenecks in the domestic economy and have been concentrated in foodgrains, industrial supplies, and other goods that were critical to the needs of the state; imports of capital goods have been aimed at import substitution rather than at expansion of export industries.
	China has attempted to balance exports and imports, making only sparing use of credits.
	China did not accept foreign investment in any form.
Trade Patt	terns, 1950-76
pendence of a war-rava posed duri sue a poli	cical and economic necessity led to heavy de- on the USSR in the 1950s. The need to rebuild aged economy amid the Western trade embargo im- ing the Korean war impelled Mao Zedong to pur- icy of "leaning to one side"trade with the countries shot from only \$350 million in 1950

25**X**1

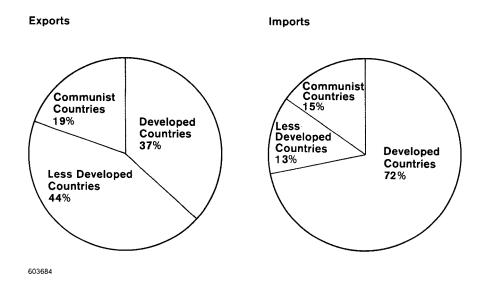
25X1

25X1

25X1

25X1

China: Geographic Direction of Trade, 1974-76



China: Commodity Composition of Trade, 1974-76

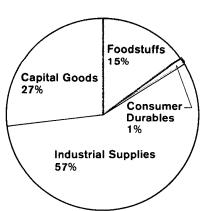
Exports by Sector of Origin

Manufacturing 49%

Extractive

13%

Imports by End Use



603685

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	
	25 X
	·
to almost \$3 billion in 1959. The USSR was the dominant trading partner supplying large amounts of plant, equipment, and industrial goods under long-term credits and vast amounts of technical aid. By mid-1960 the Soviets had completed about 130 turnkey plants worth almost \$1.4 billion.	25X′
The break with Moscow culminating in the pullout of Soviet techniciansblueprints and allleft a lasting mark on Beijing's trade policy. Overdependence on one country was to be avoided. China's trade was reoriented toward the West and by 1966 the non-Communist countries accounted for three-fourths of Chinese trade. Trade with the Soviet Union fell steadily. In 1969, the year of the border clashes, Sino-Soviet trade made up only 2 percent of China's total trade.	25X
The initial impetus for trade expansion with the non-Communist countries came from China's need for large-scale grain imports to offset harvest failures of the 1960s. Wheat imports from Canada and Australia began in 1961 had have been a major import item since. In addition, China began to purchase large amounts of fertilizer from the West to support its agricultural sector. With the economy stabilizing, China turned to Japan and Western Europe in 1963 for some \$200 million worth of plant and technology. By 1966, China had shifted three-quarters of its trade to the West. During the Cultural Revolution (1966-69), however, China's attentions turned inward and trade stagnated.	25X
The resumption of regular planning during the Fourth Five-Year Plan (1971-75) brought a new wave of trade. From 1971 to 1975 the dollar value of China's trade tripled. While this growth, in part, reflected the effects of devaluation of the dollar and inflation in the West, real growth was still substantial—about 80 percent in 1971-75. The non-Communist share of China's trade rose to nearly 85 percent, by far the largest share of any Communist country's trade. The bulk of China's imports came from the developed West, while more than half of its hard currency export earnings came from the less developed countries (LDCs).	25X1
China's imports consist chiefly of major capital itemssteel, nonferrous metals, grainmost of which come from the developed West. A large portion of its	

25<mark>X</mark>1

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
exports to LDCs goes to Hong Kong, which is dependent on China for much of its foodstuffs. China's exports of textiles, clothing, and other consumer goods find a broad market in the LDCs, largely because of the price factor. Other major exports include oil, crude agricultural materials, and sundry light manufactures.
Large-scale imports of Western technology were the keystone of Zhou Enlai's expansive trade policy. During the first half of the decade China purchased about \$6 billion worth of Western capital equipment, of which \$2.7 million went for complete plants. The capital import program entailed a large influx of foreign technicians, and medium-term credits were used to finance many of the plant purchases.
China's trade strategy came unraveled in 1974. Rampant inflation in the West was driving up import costs. At the same time, poor harvests forced China to purchase large quantities of agricultural products at record high prices. Meanwhile, the growing recession in the West cut demand for Chinese exports. Rising repayments on grain credits plus a \$1.2 billion trade deficit led to a balance-of-payments crunch in the second half of 1974. Beijing reacted by curbing imports of industrial materials, canceling and postponing deliveries of agricultural products, and trimming back new plant purchases to reduce downpayment expenses. Imports declined in 1975, while increased oil shipments salvaged some export growth, thereby cutting China's hard currency deficit by one-half for the year.
Growing leftist criticism of Zhou Enlai's and Deng Xiaoping's trade policies also took its toll on the trade sector. Particularly abhorrent to the Gang of Four was the export of natural resources—especially oil—in exchange for imports of capital goods, a policy which the leftists argued would exploit China and lead to "foreign enslavement" of the Chinese people. As the succession struggle between the Gang of Four and the moderate faction heated up following Zhou Enlai's death, political infighting nearly caused a collapse in trade. Imports fell 60 percent in the second half of 1976, as negotiations came to a standstill because of inflexibility on the part of Chinese negotiators.

25**X**1

25**X**1

25X1

25X1

25X1

25X1

25X1

Trade and Finance in the Post-Mao Period

With stability returning after the death of Mao in September 1976 and the purge of the Gang of Four in October, China's foreign trade regained its upward course in 1977 and 1978. (See quarterly trade chart.)

In 1978, two-way trade took a leap forward, passing the \$20 billion mark. China's exports increased more than one-fourth, to about \$10 billion, while imports climbed by 50 percent to just over \$11 billion. appended tables 2-4.) In part the sizable percentage increase in imports reflected a recovery from the low level of the first half of 1977. Dollar values for both exports and imports were also inflated somewhat by the depreciation of the dollar. In real terms, China's exports in 1978 probably increased about 20 percent; imports, 40 percent. The value of two-way trade in the fourth quarter of 1978 was running at more than five times the level of eight years earlier.

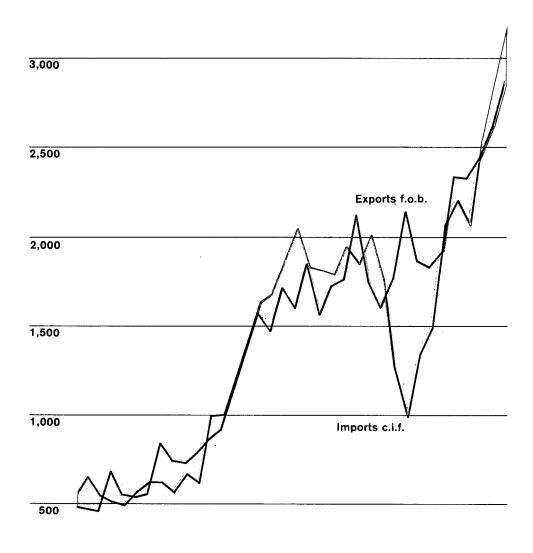
In 1978 the Chinese signed contracts amounting to \$7 billion--more than double the \$2.6 billion worth of plant and technology purchases from 1972 to 1977. Japan captured more than half of the 1978 contracts by value. Western Europe accounted for the bulk of the remaining US companies succeeded in obtaining several small design and research contracts, which could develop into billion-dollar deals if the Chinese decide to push the projects past the engineering stage.

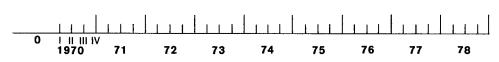
China's balance on current account fell from a healthy \$1.5 billion surplus in 1977 to a marginal surplus of less than \$100 million in 1978. Largely, this reflected the significant jump in imports -- the deficit on trade and freight amounted to about \$1.2 billion. That deficit was offset by a significant jump in revenues from tourism and from PRC-controlled businesses in Hong Kong, and in remittances from overseas Chinese.

China's capital account reflected outflows of nearly \$700 million for downpayments made on major plant contracts signed last year. China did not obtain any longterm loans to cover those downpayments, and instead chose to draw down its foreign currency holdings by \$600 million,

China: Quarterly Trends in Trade







603682

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
leaving currency reserves at a little less than \$1.9 billion. China was not very active in the gold market-purchases and sales were nearly balanced. (China's gold reserves may be on the order of \$3 billion.)
Activities in the First Half of 1979
The immediate prospect of a foreign exchange crunch was a major catalyst behind decisions reached at the December meeting of the Central Committee regarding China's foreign trade and finances.
The second quarter was highlighted by China's activities in the international financial markets. During May, Peking signed loan agreements for US \$20.5 billion, bringing the total amount of credit available to China up to at least \$26 billion.
negotiations nearing conclusion probably will push the total to more than \$30 billion. Some of these credits
have already enhanced China's foreign exchange position,
alleviating the short-term financial constraint which had caused the sharp slowdown in Chinese plant contract signings.
Japan will be China's largest creditor, with total Japanese exposure over the next seven years of at least
\$12 billion. In mid-May, China signed a syndicated Euro-
dollar loan agreement for \$2 billion to cover the dollar portion of Chinese plant purchases under the LTTA. These
dollar loans probably will be matched by an equal amount in yenprovided by the Japanese Ex-Im Bank as supplier

25X1

25X1

25X1

25X1

25X1



credits. In addition, the Japanese Ex-Im Bank committed itself in May to providing a \$2 billion resource development loan, which is not in theory tied to Chinese plant purchases under the LTTA.

25X1

Japanese commercial banks also devised a six-month \$6 billion revolving credit facility. This reportedly was the key ingredient in gaining Chinese acceptance of the entire financial package. Although the short-term facility will be tied to Chinese plant purchases under the LTTA, the funds may be used to cover downpayment expenses -- a critical constraint on the rate at which China signs new contracts. Japan agreed to lower the spreads to 0.25 percent over the floating Eurodollar rate on the \$6 billion short-term loan and to 0.5 percent over that rate on the \$2 billion, four-and-one-half-year loan--but agreed to this only after China obtained a spread of 0.5 percent on an Arab Consortium Eurodollar loan. Peking also signed protocols with France, Italy, and Canada which will provide export credits for China's major capital purchases from those countries.

25X1

Since February, Peking has engaged heavily in short-term borrowing to bolster China's depleted foreign exchange reserves. In March alone, China accepted nearly 5900 million in 30- to 90-day placements.

China was the world's largest borrower in April and May. China probably will use several long-term Eurodollar loans to consolidate some of these short-

term borrowings.

25X1

With its finances back in order, China probably will resume making major capital purchases in the near future. All but one of the suspended Japanese contracts were immediately reinstated after agreement was reached on financing. It is highly unlikely, however, that China will again make purchases at the frenzied pace of late 1978. China is still sorting out its import priorities, a process likely to continue through the remainder of the 10-year plan. Moreover, Peking now has elevated the Bank of China to a position directly subordinate to the State Council and has charged the Bank with controlling the pace of foreign exchange spending. Beijing has also ap-

pointed a high-level committee -- the Financial and Economic

25X1

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
Commission headed by Vice Premier Chen Yunthat will re- view and approve major capital purchases and has estab-
lished a State General Administration of Exchange Control
to monitor the balance-of-payments accounts and to super- vise balance-of-payments planning. These three organiza- tional changes will undoubtedly ensure a steadier pace in contract signings.
concrace signings.
Prospects for China's Foreign Trade
China's modernization program, in a sharp departure from previous policies which emphasized self-reliance,
gives foreign trade and investment a very important role.
New policies which allow heavy borrowing of Western
capitalboth on credit and an equity basisare already transforming the way China deals with the rest of the
vorld. Before long these policy changes, instituted
only within the past year, are likely to have an impact as well on the international economy in which China up
to now has played only a minor role.
Problems and setbacks are likely to occur, but it appears that China is setting a long-term course which by Communist standards involves a remarkably liberal trade colicy. The leadership is currently grappling with a number of complex questions, discussed below, which have arisen as a result of these changes. The decisions that are reached will have an important bearing on the structure of the Chinese economy for years to come.
Importing prototype plants ws importing
Importing prototype plants vs. importing capacity: In any given industry, should China import large numbers of similar production plants or should they import
just one or two and copy them? Copying has not worked well in the past but there
are some leaders who believe that is still the way to go.
Export industries vs. import substitution: The Chinese are relaxing their previous
preoccupation with importing capital
equipment that is designed to reduce other
<pre>imports, but the degree to which they should move toward developing export in-</pre>
dustries is open to debate.

25X1

25**X**1

25**X**1

25**X**1

25**X**1

-- Consumption vs. exports: Accepting foreign credits relaxes the financial constraint on imports in the short run. Exports will have to grow steadily, however, to repay these credits. Chinese leaders must decide what kind of priority should be given to exports of commodities—oil, for example—relative to the priority given to domestic consumption. Decisions currently appear to be favoring exports but that could change as domestic demand grows.

25X1

-- Foreign participation vs. self-reliance: Perhaps the most far-reaching development in the past few months is the Chinese decision, approved by the National People's Congress in June, to allow direct foreign investment in China through joint ventures with Chinese firms. Western firms, attracted by China's low wage levels, will be expected to export much of what is produced. have been set to develop at least four free trade zones where these joint ventures will operate. Considerable discussion must be under way as to how much investment will be accepted and how much authority and influence will be allowed the foreign investors. Membership in the International Monetary Fund and the World Bank is also under consideration. A Chinese application is expected within a couple of years.

25X1

Centralization vs. decentralization: China's ambitious development goals and its new liberalized policies are putting a heavy demand on Peking's decisionmaking capabilities. With respect to foreign trade, this management pressure appears to be leading to a certain degree of decentralization of decisionmaking. Provincial-level authorities are being given more independence in deciding what to import and how to earn the required foreign exchange. Competition between exporters may even be encouraged. How far this can go without eroding central control over the economy must be of concern to the leadership.

25X1

Chinese Import Prospects

China's recently released 1979 trade targets reflect the important role imports are slated to play in the modernization effort. The 1979 plan stipulates that imports will rise 40 percent to about \$15.5 billion. Even more significant is the fact that imports are expected to outpace exports during the period by \$3.5 billion, leaving Beijing with its largest trade deficit ever. Although the rate of growth of imports probably will slow after 1979, Beijing's desire to assimilate Western technology, combined with its need to bridge the gap between domestic production and consumption of agricultural goods and industrial supplies, is likely to lead to at least several consecutive trade deficits.

Industrial supplies will continue to absorb the bulk of China's foreign exchange outlays. Steel, which already accounts for more than one-fifth of total imports, will become increasingly important over the next few years as construction gets under way on the large number of Western whole plants ordered in 1978. With the new emphasis on the textile industry, imports of synthetic fiber and cotton will also remain strong at least until the 1981 and 1982 completion of the synthetic fiber plants ordered last year. In addition China's modernization program will require increasing amounts of foreign chemicals, nonferrous metals, and fertilizer.

Beijing will not be able to reduce its dependence on foreign <u>foodstuffs</u> significantly by 1985. Imports of grain-largely wheat-will probably reach 12 million metric tons this year despite a record 1978 harvest. Even if it is assumed that more extensive use of fertilizer and irrigation raises output levels, rising domestic demand should prevent China from meeting all of its domestic needs. As a result, we expect grain imports to remain in the range of 10-13 million tons per year through 1985. Sugar and vegetable oils will probably continue to account for close to 5 percent of total imports.

Major equipment and technology imports have occupied the centerpiece of China's changing trade policy and will continue to compete with industrial supplies for an increasing share of China's foreign exchange. After 1978, a year in which whole plant purchases were described by Westerners as "hectic" and "chaotic," Beijing has settled

D-12

25X1

05)//

25<u>X1</u>

25X1

into a systematic program to bring in Western technology. First priority has been given to the power industry where an acute shortage exists. Export-oriented industries are also high on China's foreign shopping list. Hotel deals, nonferrous metal plants, petrochemical complexes, and offshore oil exploration are among the projects thought to have the largest potential foreign exchange earning capability. Beijing expects deliveries of whole plants and technology to reach a record \$3 billion this year. In addition, with \$25 billion in financing already lined up and an expected 15 percent average annual increase in future exports, Beijing's major equipment and technology purchases between now and 1982 could exceed \$30 billion without putting undue strain on foreign exchange reserves.

25X1

As part of the move to bolster light industry, China has recently begun developing joint ventures with foreign firms. Several projects involving consumer electronics assembly, food processing, and textile goods production were already under discussion before the official approval earlier this month of the draft joint venture law. The deals involve almost no immediate cash outlay by the Chinese and, because of the short required construction periods, should start bringing in foreign exchange within a year.

25X1

Export Potential

China has projected exports totaling \$12 billion in 1979, up 20 percent in dollar terms over last year. Results for the first half of the year indicate this target can be reached. An active export policy should enable exports to increase by approximately 15 percent annually in real terms through the mid-1980s.

25X1

To foster export growth, practical changes in policy are occurring. Export firms are being allowed to tailor their products to suit the needs of foreign importers. Preferential treatment for Chinese exporting firms—such as permitting them to retain increased shares of foreign exchange profits—is already being put into effect in a number of instances. An export zone near Hong Kong is also under construction.

25X1

Success will depend on China's ability to follow up on these measures and move swiftly into higher valued export lines emphasizing the country's greatest comparative advantage—large masses of able and low-cost workers. China currently exports a wide variety of agricultural and mineral products and relatively simple low-value manufactured goods. Agricultural and mineral product exports will likely be limited by domestic supply and demand constraints, whereas rapid increases among the current array of manufactured goods exports are likely to be held back by restraints on foreign demand. Considerable potential exists, however, for developing new export lines, especially if dedicated export production zones are established.

25X1

Agricultural exports have grown at a considerably slower rate than exports in general in the 1970s and are likely to continue to do so. Growth has been particularly slow since 1974. The share of agricultural exports has thus dropped from nearly 50 percent in 1970 to 36 percent in 1977. Important export items include meat, fish, fruits, and vegetables, the primary market for which is Hong Kong. Prospects for rapidly increasing these exports are not good. The Hong Kong market, where Chinese products have a considerable competitive edge is likely to grow slowly. Grain exports, including rice and corn sold to various less developed countries and the Soviet Union, may have somewhat more potential.

25X1

Oil has set the pace for extractive exports in the 1970s, rising from nothing in 1970 to 222,000 barrels a day in 1978, worth \$1 billion. Most of the oil is purchased by Japan; the Philippines, Thailand, Romania, Hong Kong, North Korea, and recently the United States, and Italy have taken smaller amounts.

25X1

Increasing domestic oil requirements and declining output growth rate probably have dampened China's optimism about increasing exports significantly above current commitments. Already, if China is to meet the requirements of the Long Term Trade Agreements with Japan, oil exports will have to grow nearly 20 percent per year in volume terms. In value terms, the increase should be much higher as oil prices continue to rise. Coal and other mineral exports have increased fairly slowly in

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25)
the 1970s and have in fact declined in recent years. Coal shipments to Japan are slated to increase quite sharply	
under the terms of the LTTAfrom 500,000 tons in 1978 to 3.5 million tons in 1982.	25)
The main thrust of a Chinese export drive will have to be in manufactured goods. Exports of manufactured goods have expanded at an annual rate of approximately 15 percent in real terms since 1970, rising to more than 50 percent of total exports. A continuation of high industrial growth rates, combined with more emphasis on exports and with a strong shift into higher valued product lines, should enable exports to maintain past growth in foreign sales.	25.
As with many other emerging nations, textiles are playing a leading role in Chinese exports. Textiles and clothing exports—accounting for more than 20 percent of Chinese exports throughout the 1970s—totaled \$1.8 billion in 1977, 23 percent of total Chinese exports. Textile exports have grown at approximately the same rate as the overall export growth in the 1970s. Domestic production capacity is expected to increase rapidly once the recently ordered synthetic fiber plants come on line. Low-cost labor, if accompanied by modern production techniques and marketable designs, will provide China with a competitive edge by which market shares could be increased. The major problem in rapidly expanding textile exports will be that of breaking into already highly protected markets. Beijing's textile exports are currently widely distributed, with LDCs purchasing over 40 percent of textile fabric and clothing exports, whereas entry into the more profitable North American and West European markets has only just begun.	25.
Other important manufactured exports currently include iron and steel, mineral and metal products, machinery and transportation equipment (all shipped primarily to LDCs), and handigrafts (shipped to developed countries and Hong	

Other important manufactured exports currently include iron and steel, mineral and metal products, machinery and transportation equipment (all shipped primarily to LDCs), and handicrafts (shipped to developed countries and Hong Kong). Again, China's ability to increase export supplies is not expected to be the major constraint. Lack of foreign demand, despite China's diverse markets, may hold export increases of these products below the 15-percent annual rates achieved in the past.

For China's ambitious new trade policies to succeed, important new export product lines thus must be established.

25X1

Emphasis ideally should be on labor-intensive assembly line processes with, at least initially, a heavy share of imported components. For this, the Chinese will have to be willing to build to foreign specifications and cooperate with foreign distributorships. Material incentives to Chinese export firms and their workers will have to be provided to encourage efficient production. Tariff and muota agreements will have to be negotiated.

25X1

Official Chinese statements strongly suggest that China is willing to take these steps at least on a trial basis. Recent announcements state that, in order to increase export earnings, firms will be allowed to accept processing and assembly orders from foreign businessmen. Imports of assembly line equipment and intermediate goods will be encouraged. Firms will be allowed to exchange foreign earnings into domestic yuan at nearly double the official rate. The Chinese have already sought out foreign businessmen who might be interested in cooperative ventures to manufacture and export items such as radios, cameras, television sets, typewriters, and pharmaceuticals.

25X1

US-Chinese Trade Prospects

Important changes in Chinese and American relations over the past two years have greatly improved the prospects for expanding trade. A few problems--Congressional approval of most-favored nation states for China, US Export-Import Bank financing for exports to China, and settlement of the thorny textile quota issue remain to be solved before US-Chinese trade is completely "normalized."

25X1

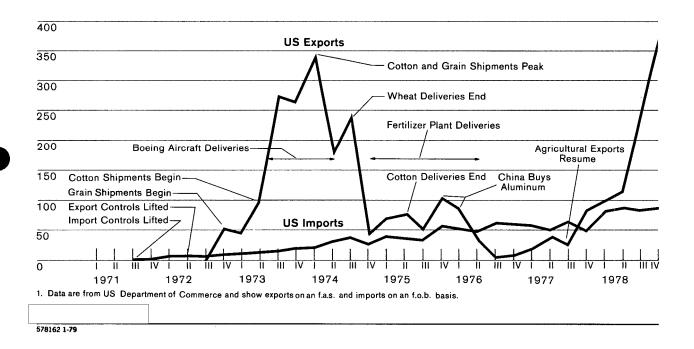
In 1978 two-way trade was nearly triple the level of 1977. US exports reached \$824 million, five times the 1977 level and equal to the record set in 1974. Imports increased by 60 percent to \$324 million, providing the United States with a surplus of close to \$500 million. Total trade in 1979 could reach \$2 billion with a \$700-800 million US surplus.

25X1

US Exports

Exports to China have fluctuated greatly since the US embargo was lifted in 1971. (See chart on highlights of US-China trade.) Agricultural commodities have accounted

Highlights of US-China Trade¹ Million US \$



25X1

for almost 70 percent of American sales, but have varied greatly. Boeing aircraft, eight fertilizer plants, aluminum, and oil exploration and drilling equipment made up most of the remainder of US exports.

25X1

Large sales of wheat, corn, soybeans, and cotton in 1973 and 1974 vaulted the United States into third place behind Japan and West Germany as an exporter to China. Lower grain requirements and ample supplies available from traditional suppliers—Australia, Canada, and Argentina—took China out of the US market in 1975 and 1976. In late 1977 after consecutive poor harvests, the Chinese reentered the US market, and in 1978 they imported almost \$600 million of agricultural commodities. Large grain shipments continued in the first half of 1979.

25X1

In the most recent wave of grain purchases, the Chinese no longer appeared to treat the United States as a residual supplier. Canada and Australia have well-established commercial relationships, including long-term grain supply contracts, and thus continue to have a small competitive edge in selling to China. The United States is nevertheless in a position to supply one-third to one-half the 10-13 million tons of grain that China is expected to import annually for the next few years.

25X1

Despite improved US-Chinese commercial relationships, US firms have lagged behind Japanese and West German firms in cashing in on China's biggest growth market--capital equipment. Only in a few areas where US technology is clearly superior--oil exploration, aircraft, and some mining equipment--have US firms made significant inroads. In addition to the competitiveness of Japanese and German capital goods producers, little experience in dealing with China and in a few cases lack of concessionary government financing have hindered US efforts.

25X1

Chinese Exports

In 1978, Chinese sales to the United States jumped by 60 percent. The United States thus surpassed West Germany, Singapore, and Romania as a market for Chinese exports, but trailed a distant third behind Japan and Hong Kong. Even so, the United States, which takes about 15 percent of total world exports, accounts for only 3 percent of Chinese exports. Imports from China represent only 0.2 percent of US imports.

25X1

25X1|

China presumably considers the possibility of increased sales to the United States a major benefit of the normalization process. Most-favored-nation status is expected to make Chinese products more competitive and could boost Chinese exports by about 30 percent. The key remaining issue with regard to Chinese exports is the extent of quotas which the United States will The Chinese have resisted textile quotas to impose. the point of forcing unilateral US restraints; the Chinese consider the US policy of placing quotas based on past levels of exports as unfair. If Chinese textile exports are to expand rapidly, the Chinese will have to widen greatly their product lines. US restrictions were placed on only five items, but these account for approximately 80 percent of Chinese textile exports to the United States.

Strong growth in Chinese exports to the United States--as with Chinese exports in general--will depend primarily on China's ability to break into markets for higher priced consumer products, including clothing and consumer electronics. Chinese success in building export plants, particularly if through joint ventures with Western manufacturers and distributors, could result in substantial increases in shipments to the US market within a few years.

US-Chinese Financial Ties

Settlement of the frozen assets problem has paved the way for direct financial relations between US financial institutions and China. No foreign banks are allowed to have active branches in China, but more than 20 US banks have already set up correspondent relations with the Bank of China. The Chinese official foreign exchange bank is expected to establish a New York branch soon after the US-Chinese trade agreement is approved. So far, only one US bank is known to have made a loan to China. Japanese and European banks have offered very competitive credits and US banks are not willing to match these terms.

The US Export-Import Bank still is not allowed to do business with China. Passage of the trade agreement must be followed by settlement of \$25 million in outstanding principal--signed before 1949--plus accrued interest. China, which has already lined up billions of dollars in credit from European and Japanese exportimport banks, may be in no hurry to explore US Ex-Im Bank credits.

D-18 SECRET 25X1

25X1

Table 1
US-China Trade¹

						llion US	S \$
	1972	1973	1974	<u> 1975</u>	1976	1977	1978
US Exports	63	740 ²	819 ²	304	135	171	824
Agricultural commodities Of which:	61	628	668	80	0	64	581
Wheat	35	308	234	0	0	0	250
Corn	24	141	96	0	0	0	112
Soybeans	0	55	138	0	0	14	15
Cotton	0	101	186	80	0	18	157
Vegetable oils	2	19	8	0	0	28	26
Metals	0	31	22	83	47	7	21
Of which:						•	
Steel scrap	0	24	12	13	4	Negl	Negl
Aluminum	0	3 ·	0	47	26	5	Negl
Iron and steel pipe	0	0	3	12	11	Negl	1
Machinery and equipment Of which:	2	69	107	119	65	52	92
Aircraft, including engines,							
parts, and accessories	0	63	76	2	1	0	Negl
Other	0	12	22	22	23	48	130
US Imports	32	64	115	158	201	203	324
Foodstuffs and tobacco	4	7	16	16	24	26	27
Textiles and apparel	7	15	36	45	63	58	118
Silk and other fibers	4	6.	5	4	8	8	10
Cotton and other fabrics	2	7	25	31	35	21	41
Clothing and footwear	1	2	6	10	20	29	67
Handicrafts	8	15	20	22	42	49	74
Of which:					- -		
Antiques, works of art	3	6	8	6	12	9	12
Bristles, downs and feathers	8	8	10	6	24	28	35
Chemicals, including fireworks		8	18	16	18	22	34
Nonferrous minerals and metals Of which:	2	8	11	42	21	12	29
Tin	1	8	9	40	13	4	15
Other	$\bar{1}$	3	4	11	10	8	7
			_			_	•

Data are from the Department of Commerce and show f.a.s. exports and f.o.b. imports.

 $^{^{2}}$ Includes grain reexports from Canadian ports.



CHINA: EXPORTS, FOB, BY AREA AND COUNTRY 1/

DESTINATION			1977				1978		1979		ANNU	ĀĒ
DESTINATION		••			,				• • • • • • •	••••••		
	I	II	111	1 V	1	11	111	IV	I	1976	1977	1978
WORLD	1.906.0	1.856.5	1,934.1	2.398.7	2.154.1	2,293.0	2.491.9	2.992.1	2.820.8	7,283.5	8,095.3	9.931.1
NON-COMMUNIST COUNTRIES	1,595.4	1.562.8	1.641.1	1.931.4		1,968.4			2.457.3	6.047.9	6,730.8	8.372.3
DEVELOPED COUNTRIES	699.2	683.0		859.0	828.9			1.115.1	1,179.8	2,697.4	2.939.3	3.777.1
EAST ASIA AND PACIFIC	376.8	375.0	374.3	505.0	451.5				599.7	1,421.7	1,631.1	2.108.3
Australia	33.6	30.0			35.5				50.1	100.2	124.2	140.7
Japan	338.3	340.6			411.6				543.4	1,307.3	1,485.7	1,947.5
NORTH AMERICA	70.4	72.6	77.3	60.1	94.5	112.3	102.1	97.6	131.0	291.5	280.4	406.5
Canada	19.5	23.5	20.5	13.8	15.7	26.1	21.1		* 29.7	89.6	77.3	82.8
United States	50.8	49.2	56.8	46.3	78.7				101.3	201.8	203.1	323.6
WESTERN EUROPE	252.1	235.4	246.5	293.8	282.9	305.3	296.1	378.1	449.1	984.2	1,027.8	1.262.3
Belgium	8.3	9.0	7.7	10.2	10.2	9.7	8.7	10.6	* 11.8	45.6	35.1	39.1
France	42.1	40.0	39.7	46.9	39.9	55.9	44.3	56.2	60.6	169.1	168.6	196.3
West Germany	57.4	54.8	64.3	73.9	71.5	79.9	77.7	89.7	92.4	236.5	250.4	318.7
Italy	37.5	27.8	31.4	44.9	33.2	35.4	35.9	69.6	* 57.6	134.9	141.6	174.1
Netherlands	18.3	21.0	21.3	21.7	27.2	25.2	28.7	28.0	* 24.8	77.7	82.3	109.1
Norway	2.2	2.2	2.3	2.9	2.6	2.8	2.1	3.4	* 25	7.2	9.6	11.0
Spain	9.1	7.5	8.4	11.2	12.8	15.1	12.0		* 34.2	41.5	36.2	59.4
Sweden	13.5	13.5	11.6	12.2	11.7	9.9		15.1	* 16.3	44.0	50.7	48.8
Switzerland	9.4	7.9	8.2	8.5	10.8	10.3	11.0	11.4	11.0	31.5	34.0	43.5
United kingdom	38.1	37.1	37.0	47.1	43.7				* 108.8	135.6	159.4	185.7
LESS DEVELOPED COUNTRIES.	896.2	879.8	943.0	1,072.5	944.3	1,056.4	1,185.1	1,409.3	1,277.5	3,350.5	3,791.5	4.595.2
SOUTHEAST ASIA	565.6	585.0	644.8	722.3	647.7	741.5	825.2	978.7	868.7	2.287.5	2,517.7	3,193.1
Hong Kong	393.7	397.5	433.2	511.0	463.3	526.8	580.3	678.9	597.0	1.593.3	1,735.4	2.249.4
Indonesia	18.4	42.1	41.7	44.0	19.6	33.0	20.6	* 22.0	20.9	125.5	146.2	95.2
Malaysla	29.8	29.2	39.6	35. 3	38.7	46.1	60.2	65.6	49.6	128.0	133.8	210.6
Philippines	11.3	19.5	21.2		22.5	25.4	28.7	* 37.4	35.4	53.9	79.1	113.9
Singapore	67.4	58.4	69.4	66.5	69.6	75.7	81.6		92.8	254.0	261.8	324.8
Thailand	22.5	15.9	16.1	9.4	10.0	10.5	27.7	* 27.6	26.2	68.3	64.0	75.8
SOUTH ASIA	31.1	22.3	23.1	_ 30.5	22.3	22.3	27.0	38.9	36.9	77.2	106.9	110.6
Pakistan	17.7	10.0	9.6	13.7	12.5	13.3	14.4	17.3	16.4	61.0	51.0	57.5
Sri Lanka	6.9	6.8	7.1	8.8	.0	1.3	4.2	11.5	* 10.9	6.3	29.6	17.0
MIDDLE EAST	146.8	146.3	136.9	155.8	123.4		154.8	174.8	_ 165.8	428.0	585.8	583.7
Bahrain	21.6	14.7	11.7	11.2	. 4.3		5.0	6.0	* 5.7	36.6	59.2	20.0
Iran	28.8	13.1	13.7	17.0	* 15.5	16.5	17.9	21.5	20.4	89.0	72.6	71.3
Iraq	9.8	12.3	11.6	* 14.4	13.1	13.9	15.1	18.2	17.2	51.0	48.1	60.5
Kuwait	25.2	36.3	29.0	33.2	23.0		26.7	. 32.0	30.4	71.3	123.7	106.2
Syria	8.6	12.2	12.2	10.4	7.9	7.3	19.0	* 13.2	12.5	31.1	43.5	47.4



--CONTINUED

CHINA: EXPORTS, FOB. BY AREA AND COUNTRY 1/

DESTINATION			977		,		1978	· · · · · · · ·	1979	••••••	ANNUA	L
•••••	I	11	111	IV	1	Ιİ	111	īv	I	1976	1977	1978
NORTH AFRICA	38.9	31.5	31.8	43.0	36.8	37.5	41.0	48.8	46.3	132.3	145.2	164.2
Egypt	10.6	10.4	10.9	13.4	* 12.3	13.0	14.2	17.0	16.1	39.2	45.3	56.5
Libya	17.7	10.3	9.0	10.4	* 9.6	10.1	11.0	13.2	12.5	59.0	47.4	43.9
SUB-SAHARA AFRICA	102.4	83.1	93.3	105.7	98.0	102.5	115.8	145.2	137.7	381.8	384.5	461.5
Nigeria	39.4	25.4	32.7	36.0	* 32.8	34.9	38.0	45.6	43.3	128.0	133.5	151.5
Sudan	9.7	* 5.2	5.4	6.7	6.1	6.5	7.0	8.4	8.0	25.3	26.9	28.0
Tanzania	4.6	4.2	* 4.4	5.4	5 A	5.3	5.7	6.9	6.5	37.8	18.7	22.9
Zambia	1.6	2.5	2.6	1.8	* 1.7	1.8	1.9	2.3	2.2	13.2	8.5	7.7
LATIN AMERICA	11.4	11.5	13.3	15.2	16.1	21.9	21.2	23.0	22.1	43.7	51.4	82.2
Argentina	. 2	. 1	. 2	. 3	. 4	.4	* 4	.5	.5	.2	.8	1.7
Brazil	. 2	. 1	. 1	. 1	.0	.1	. 1	* .1	.1	.3	.4	
Peru	* .2	. 2	. 2	. 3	. 3	. 3	.3	.4	.3	.8	. 9	1.2
COMMUNIST COUNTRIES	310.6	293.7	292.9	467.2	380.9	324.6	385.7	467.7	363.5	1.235.6	1.364.6	1.558.8
ASIA	136.8	123.9	120.0	216.8	170.5	112.7	152.5	199.4	143.4	633.0	597.6	635.0
USSR	38.6	27.5	19.3	92.4	67.8	31.7	64.3	93.5	43.0	178.5	177.8	257.3
EASTERN EUROPE	162.1	158.3	160.9	235.6	197.2	197.6	217.8	249.9	202.6	547.6	717.0	862.4
Czechoslovakia	20.8	20.5	21.4	26.4	* 24.1	25.6	27.9	33.5	31.8	56.2	89.1	111.1
East Germany	25.7	25.3	26.4	32.6	29.6	32.2	34.7	41.6	* 39.4	96.0	110.0	138.0
Hungary	9.8	2.5	6.8	22.0	11.8	16.9	26.0	21.0	7.3	30.6	41.1	75.7
Poland	13.3	12.0	4.6	24.5	18.0	18.6	23.1	31.6	. 13.2	39.5	54.4	91.3
Romania	63.9	62.7	65.5	81.0	64.7	70.4	75.9	90.9	* 86.3	201.9	273.2	302.0
Yugoslavia	3.3	10.6	10.3	17.0	17.8	17.2	23.1	22.6	* 16.5	17.5	41.3	80.7
OTHER 2/	11.7	11.5	12.0	14.8	13.2	14.3	15.4	18.5	* 17.5	55.0	50.0	61.4
			PERCEN	T OF EST	IMATE OBTA	INED FRO	OM TRADE	PARTNER	DATA: 3/			
WORLD	97.82	97.74	96.79	95.75	86.07	85.03	82.55	79.90	61.13	98.39	96.94	83.09
DEVELOPED COUNTRIES	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	87.03	100.00	100.00	100.00
LESS DEVELOPED COUNTRIES.	95.36	95.22	93.42	90.50	77.03	75.85	73.70	67.84	49.37	96.50	93.47	73.08
COMMUNIST COUNTRIES	100.00	100.00	100.00	100.00	78.20	72.81	68.06	68.36	18.42	100.00	100.00	71.62

^{1/} Country listings for any given area are not exhaustive: only major trade partners are presented. Country data for all quarters to the right of an asterisk are extrapolated and are subject to change. See appendix.
2/ Cuba
3/ Includes quarterly data that have been interpolated from annual trade partner data.



CHINA: IMPORTS, FOB, BY AREA AND COUNTRY 1/

PROVENANCE			977				1978		1979	ANNUAL		
					,					******		
••••••••	I	11	111	IV	I	11	111	IV	1	1976	1977	1978
WORLD	1,221.7	1.388.1	1,899.6	2,043.2			2,530.5		3,455.4	5,579.6	6,552.8	
NON-COMMUNIST COUNTRIES							2,176.1		2.970.8	4,501.8	5,485.9	8.710.1
DEVELOPED COUNTRIES	765.5	810.6	1,230.1	1,359.7	1,331.1	1,672.1	1,807.2	2,416.6	2,439.5	3,768.3	4,166.0	7,227.1
EAST ASIA AND PACIFIC	471.5	434.9	792.7	754.3	657.8	. 902.7	895.6	1,165.7	1,156.9	1;954.6	2,453.5	3,621.9
Australia	38.6	53.0	175.8	193.6	151.0	134.0	106.7	91.1	130.8	264.3	461.0	482.9
Japan	419.8	377.1	606.1	551.9	497.6	754.2	773.4	1,048.7	1,000.7	1,665.8	1,954.9	3,073.9
NORTH AMERICA	91.9	140.5	115.7	169.7	175.9	238.0	368.8	483.0	512.9	334.7	517.8	1,265.7
Canada	72.8	97.4	88.4	87.9	78.4	124.5	138.4	100.8	* 117.6	199.7	346.5	442.1
United States	19.1	43.1	27.3	81.8	97.5	113.5	230.4	382.2	395.3	135.0	171.3	823.6
WESTERN EUROPE	202.1	235.2	321.7	435.7	497.4	531.4	542.8	767.9	769.6	1,479.0	1,194.7	2,339.5
Belgium	3.8	9.2	18.9	16.1	38.8	45.9	44.7	76.0	* 47.2	40.0	48.0	205.4
	33.3	14.2	20.8	27.0	30.9	47.0	49.5	71.8	97.7	354.6	95.3	199.2
France	96.0	114.0	125.0	165.7	250.7	227.3	223.6	293.6	322.0	622.0	500. 7	995.2
	12.1	8.2	32.8	35.8	38.B	42.5	40.9	66.2	* 68.0	126.9	88.9	188.4
Italy	5.9	3.9	21.8	20.9	19.8	18.9	25.5	70.8	* 42.4	38.9	52.5	135.0
Netherlands	.2	20.2	20.4	55.5	24.3	11.8	16.0	7.7	* 4.8	18.4	96.3	59. 7
Norway		3.2	6.1	8.5	11.0	16.6	13.3	25.4	* 39.2	17.4	21.3	66.3
Spain		7.6	18.1	14.8	9.5	14.1	23.4	37.4	* 24.7	30.8	45.3	84.4
Sweden	14.5	10.8	12.8	18.8	24.3	19.1	22.8	28.4	24.8	51.9	56.9	94.6
Switzerland United kingdom	_	29.6		30.5	30.7	44.8	42.7	57.4	* 67.5	125.6	108.9	175.6
A TOTAL DESIGNATION OF COMMENTERS	248.5	375.6	379.9	315.7	254.2	350.2	368.9	510.5	531.3	733.5	1,319.9	1,483.0
LESS DEVELOPED COUNTRIES.		120.9	120.7	94.5	59.2	102.5			159.6	219.8	441.7	366.2
SOUTHEAST ASIA	105.7		10.1	14.4	12.3	16.4		20.0	44.2	30.1	44.4	62.9
Hong Kong		11.4		.0	.0				.0	.0	.0	.0
Indonesia		.0		29.6	18.5	13.4			57.6	44.8	119.9	110.3
Malaysia		28.7			6.1	28.6			4.8	38.3	109.1	48.7
Philippines		30.9		22.4		12.8		7.5	19.5	38.7	59.4	57.4
Singapore		10.5			10.4				12.0	61.4	102.0	58.3
Thailand	27.2	38.4	27.1	9.3	9.3	29.3	7.5	12.2	12.0	01.4		
SOUTH ASIA		16.1		22.0	7.6				15.9 2.4	82.2 17.0	73.2 7.7	55.5 7.2
Pakistan					1.3				* 9.0	56.9	47.4	31.0
Sri Lanka	8.8	10.1	13.8	14.8	.0	8.6	13.2	9.1	~ g.u	50.9	77.7	31.0
MIDDLE EAST		50.3			73.1	71.9			94.0 * 0	160.0	205.2	311.8
Bahrain					.0				. •	18.3	15.3	62.1
Iran					11.5				20.8	22.8	39.9	
1raq	3.7				5.8				10.6	50.0	20.0	31.6
Kuwait	4.6				23.4				42.5	9.8	39.9	126.7
Syr1a		13.9	11.6	9.7	19.5	10.1	1.1	* 2.5	2.4	37.3	55.2	33.2



-- CONTINUED

CHINA: IMPORTS, FOB, BY AREA AND COUNTRY 1/

PROVENANCE	1977				1978				1979	ANNUAL		
					,							
	1	11	111	IV	I	11	111	IV	1	1976	1977	1978
NORTH AFRICA	13.6	16.4	24.3	19.4	17.8	21.6	25.1	34.1	33.5	56.2	73.7	98.7
Egypt	6.3	7.3	9.9	10.6	* 10.0	12.2	13.3	18.5	18.1	51.4	34.1	53.9
Libya	. 2	. 3	. 3	.4	* .3	. 4	. 5	. 6	.6	1.0	1.2	1.9
SUB-SAHARA AFRICA	36.8	40.6	54.2	46.2	42.5	52.9	55.6	82.3	80.7	110.1	177.8	233.2
Nigeria	.0	2.3	9.4	0	* .0	. 0	.0	.0	. 0	1.0	11.7	.0
Sudan	14.9	* 10.8	14.8	15.8	14.8	18.1	19.8	27.5	26.9	24.2	56.3	80.3
Tanzanta	4.0	4.4	* 6.0	6.4	6.0	7.4	8.1	11.2	11.0	13.7	20.9	32.7
Zambia	5.3	10.3	7.2	6.1	* 5.7	7.0	7.7	10.6	10.4	27.0	29.0	31.1
LATIN AMERICA	35.2	131.3	114.0	67. 7	54.0	88.0	125.1	150.6	147.7	105.2	348.4	417.6
Argentina	15.1	35.7	28.7	7.5	1.1	16.8	* 30.3	41.9	41.1	2.7	87.1	90.1
Brazil	. 0	78.9	61.8	21.8	24.0	35.9	35.1	* 48.6	47.7	9.0	162.7	143.6
Peru	9.7	4.9	7.1	* 21.0	19.7	24.1	26.3	36.5	35.8	41.9	42.7	106.6
COMMUNIST COUNTRIES	207.7	201.9	289.6	367.8	295.3	307.7	354.4	596.3	484.6	1,077.8	1,066.8	1,553.8
ASIA	75.3	63.9	81.7	141.9	100.9	102.8	129.4	226.6	176.1	384:4	362.7	559.7
USSR	38.1	21.2	23.2	79.3	42.2	31.0	51.0	118.0	69.6	238.4	161.8	242.2
EASTERN EUROPE	122.1	126.3	192.0	208.7	173.7	179.5	196.6	330.4	269.9	608.4	649.1	880.1
Czechoslovakia	13.6	15.6	21.3	22.9	* 21.4	26.2	28.6	39. 7	38.9	69.9	73.4	116.0
East Germany	21.3	24.4	33.4	35.9	33.1	40.7	45.4	62.9	* 61.7	104.0	115.0	182.0
Hungary	4.3	2.2	8.5	17.0	4.9	10.0	12.6	30.0	3.9	39.6	32.0	57.5
Poland	22.0	13.7	14.4	10.6	16.9	7.3	14.2	54.9	31.9	63.2	60.7	93.3
Romania	44.3	50.8	69.5	74.6	56.9	69.9	78.1	108.1	* 106.0	248.8	239.2	313.0
Yugoslavia	1.7	2.4	21.4	22.5	6.5	4.4	5.7	18.1	* 11.1	11.4	48.0	34.7
OTHER 2/	10.2	11.7	16.0	17.1	20.7	25.4	28.4	39.3	* 38.6	85.0	55.0	113.9
			PERCEN	T OF EST	IMATE OBTA	INED FRO	OM TRADE	PARTNER	DATA: 3/		,	
WORLD	98.90	98.90	98.46	97.95	88.07	88.22	87.58	84.97	69.84	99.31	98.47	86.92
DEVELOPED COUNTRIES	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	91.12	100.00	100.00	100.00
LESS DEVELOPED COUNTRIES.	94.59	95.93	92.31	86.71	46.77	52.74	47.04	28.55	15.76	94.73	92.42	42.00
COMMUNIST COUNTRIES	100.00	100.00	100.00	100.00	69.81	64.58	66.41	72.34	22.03	100.00	100.00	68.97

 ^{1/} Country listings for any given area are not exhaustive: only major trade partners are presented. Country data for all quarters to the right of an asterisk are extrapolated and are subject to change. See appendix.
 2/ Cuba
 3/ Includes quarterly data that have been interpolated from annual trade partner data.

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8



CHINA: TRADE BALANCES, FOB, BY AREA AND COUNTRY 1/

1977

1978

1979

Million US\$

1976 1977 1978 I۷ 1 1 V 1 111 1 11 III 11 273.5 -634.6 1.703.8 1,542.6 -332.8 -531.2 WORLD. 684.3 468 4 34.4 355.5 -37.0 -38.7 NON-COMMUNIST COUNTRIES.. 256.0 187.9 -53.9 -69.9 -402.7 -513.5 1,546.1 1,244.9 31.1 581.4 376.6 DEVELOPED COUNTRIES..... EAST ASIA AND PACIFIC.. -66.3 -127.6 -532.0 -500.8 -502.3 -760.1 -886.2 -1301.5 -1,259.7 -1,070.9 -1.226.7 -3.450.0 -822.4 -1.513.6 -94.7 -59.9 -418.5 -249.3 -206.3 -408.2 -372.7 -526.3 -557.3 -532.9 -80.7 -336.8 -102.1 -75.2 -49.4 Australia...... -5.0 -23.0 -147.0 -161.9 -115.6 -164.1 -469.2 -1,126.4 -81.5 -36.5 -265.3 -85.8 -86.0 -296.3 -286.6 -457.5 -457.3 -358.5 -237.4 -859.2 -43.2 -381.9 NORTH AMERICA..... -21.5 -67.9 -38.4 -109.6 -81.4 -125.7 -266.7 -385.4 * -87.9 -62.7 -80.9 -110.1 -269.2 -359.3 -74.1 -117.3 -53.3 -73.9 -67.9 -98.4 -18.8 -27.3 -149.4 -304.5 -294.0 31.8 -500.0 31.7 6.1 29.5 66.8 WESTERN EUROPE...... -75.1 -389.8 -320.5 -494.8 -166.9 1.077.2 -141.9 -214.5 -226.1 -246.7 50.0 . 2 -12.9 -5.9 -28.6 -36.2 -36.0 -65.4 * -35.4 -166.3 4.5 -11.2 25.8 19.9 9.0 -5.2 -15.6 -37.1 -185.5 73.3 -2.9 18.9 8.9 -250.3 -676.5 -179.2 -147.4 -229.6 -385.5 West Germany...... -38.6 -59.2 -60.7 -91.B -145.9 -203.9 52.7 -14.3 9.1 -5.6 -7.1 -5.0 3.4 -10.4 25.4 19.6 -1.4 6.3 -42.8 -17.6 38.8 29.8 -25 9 12.4 * - 48 . 7 -52.7 -86.7 Norway......... 2.0 -18.0 -18.0 -21.7 -9.0 -13.B -4.2 -1.3 -11.2 -5.9 -5.0 14.9 1.8 Spain..... 5.7 4.2 5.9 2.3 2.7 -1.5 -1.3 -6.5 -2.6 -22.3 * -8.4 13.2 5.4 -35.6 8.7 -13.8 -22.9 -20.4 -2.9 -4.6 -10.3 -13.5 -8.8 -11.8 -17.0 -51.1 + 10.0 50.5 10.1 2.7 -2.4 United kingdom..... 17.8 7.5 8.5 16.6 13.0 -3.1 LESS DEVELOPED COUNTRIES. 647.7 504.1 563.1 756.8 690.1 706.2 816.3 R RPR 746 2 2.617.0 2.471.6 3.112.2 2,076.0 709.1 2.067.7 2,826.9 SOUTHEAST ASIA...... 460.0 464.1 524.1 627.8 588.6 639.0 752.0 847.3 510.5 1,563.2 1,691.0 2,186.5 Hong Kong..... 385.3 386.1 423.1 496.6 451.1 566.0 658.9 * 22.0 41.7 19.6 33.0 20.6 20.9 125.5 146.2 95.2 Indonesia...... 83.2 100.2 Malaysia..... 13.9 9.7 -1.8 5.6 20.2 32.6 34.3 13.1 -8.1 -11.4 * 32.5 30.6 -30.0 4.6 16.4 19.6 Philippines..... -31.4 8.1 -3.2 60.2 40.7 62.9 67.3 78.0 73.3 215.3 202.4 267.3 Singapore...... * That land....... -22.5 -11.0 -18.8 20.2 15.4 14.2 6.9 -38.1 17.5

SOUTH ASIA.....

MIDDLE EAST.....

Pakistan.....

Srt Lanka.......

Bahrain.....

1ran.....

Iraq............

Kuwait......

Syria........

17.6

16.4

-1.8

103.0

21.5 20.9

6.1

20.6

-11.4

6.1

7.0

-3.3

96.1

5.4 4.8

30.6

-1.7

1.6

-6.7

91.7

7.7

5.8

. 6

24.4

12.2

-6.0

90.0

9.2

4.8

8.2

8.2

WITH

14.7

11.1

50.3

4.3

-.4 -11.6

. 0

11.6

-7.2

58.7

4.7

6.8

-4.1

-2.8

8.7

12.6

-9.1

83.3

5.0

2.6

7.3

-4.6

17.9

22.6

14 9

78.9

6.0

. 3

7.4

10.7

2.3

21.0

14.0

71.8

5.7

6.6

-12.1

10.1

1.9

-5.0

44.0

-50.6

268.0

18.3

66.2

61.5

-6.2

1.0

33.8

43.3

-17.8

380.6

43.8

32.7

28.1

83.8

-11.7

55.1

50.3

-14.0

271.8

20.0

28.9

14.2

-20.5

9.2



-- CONTINUED

CHINA: TRADE BALANCES, FOB, BY AREA AND COUNTRY 1/

Million US\$

			1977					978		1979		ANNUA		
WITH	• • • • • • •			• • • • • • • •	•			•••••••		•••••	•••••	• • • • • • • • • • • • • • • • • • • •		
••••••	1	11	111	IV		1	11	111	IV	1	1976	1977	1978	
NORTH AFRICA	25.3	15.2	7.5	23.6		19.1	15.9	16.0	14.7	12.8	76.1	71.5	65.0	
Egypt	4.3	3.1	. 9	2.8	*		.8	8.	-1.4	-2.0	-12.2	11.1	2.5	
Libya	17.5	10.0	8.7	10.0	*		9.7	10.5		11.9	58.0	46.2	42.0	
SUB-SAHARA AFRICA	65.7	42.5	39.1	59.5		55.4	49.6	60.2	62.9	57.0	271.7	206.8	228.	
Nigeria	39.4	23.1	23.3	36.0	*	32.8	34.9	38.0	45.6	43.3	127.0	121.8	151.5	
Sudan	-5.2	* -5.6	-9.4	-9.2		-8.8	-11.7	-12.8	-19.0	-18.9	1.1	-29.4	-52.	
Tanzani a	. 6	2	* -1.6	-1.0		-1.1	-2.1	-2.3	-4.3	-4.4	24.2	-2.2	-9.6	
Zambia	-3.8	-7.8	-4.6	-4.3	*		-5.3	-5.8	-8.3	-8.2	-13.8	-20.5	-23.4	
LATIN AMERICA	-23.9	-119.8	-100.B	-52.6		-37.9	-66.1	-103.9	-127.7	-125.5	-61.5	-296.9	·335.	
Argentina	-15.0	-35.6	-28.4	-7.3		7	-16.4		-41.4	-40.6	-2.5	-86.3	-88.4	
Brazil	. 2	-78.8	-61.8	-21.8		-24.0	-35.8	-35.0		-47.6	-8.7	-162.2	-143.4	
Peru	-9.5	-4.6	-6.9	* -20.7		-19.4	-23.8	-26.0	-36.1	-35.4	-41.1	-41.8	-105.4	
COMMUNIST COUNTRIES	102.9	91.8	3.3	99.5		85.6	16.9	31.3	-128.6	-121.1	157.7	297.7	5.0	
ASIA	61.4	60.0	38.3	74.9		69.6	10.0	23.1	-27.2	-32.8	248.6	234.9	75.3	
USSR	. 5	6.3	-3.9	13.1		25.6	. 7	13.3	-24.5	-26.6	-59.9	16.0	15.1	
EASTERN EUROPE	40.0	32.0	-31.1	26.9		23.5	18.0	21.2	-80.5	-67.3	-60.9	67.8	-17.8	
Czechoslovakia	7.3	4.9	.0	3.5	*	2.7	6	8	-6.2	-7.2	-13.7	15.7	-4.9	
East Germany	4.4	. 9	-7.0	-3.3		-3.5	-8.5	-10.7	-21.3	* -22.3	-8.0	-5.0	-44.0	
Hungary	5.5	.3	-1.7	5.0		6.9	6.9	13.4	-9.0	3.4	-9.0	9.1	18.2	
Poland	-8.7	-1.7	-9.8	13.9		1.1	11.3	8.9	-23.3	-18.7	-23.7	-6.3	-2.0	
Romania	19.6	11.9	-4.0	6.4		7.8	. 5	-2.1	-17.2	* -19.8	-46.9	34.0	-11.0	
Yugoslavia	1.6	8.1	-11.0	-5.5		11.3	12.8	17.3	4.5	* 5.4	6.1	-6.8	46.0	
OTHER 2/	1.5	2	-4.0	-2.3		-7.5	-11,1	-13.0	-20.9	* -21.1	-30.0	-5.0	-52.5	

1/ Country listings for any given area are not exhaustive: only major trade partners are presented. Country data for all quarters to the right of an asterisk are extrapolated and are subject to change. See appendix.
2/ Cuba

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

7

ш

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
CHINA'S MILITARY POSTURE AND MODERNIZATION
Executive Summary
China's basic military objective is to build and maintain forces sufficient to deter or repel any attacker, particularly the USSR.
The invasion of Vietnam last February has not resulted in any significant change in China's objective and has, in fact, contributed to the acceleration of force improvements along the Sino-Soviet border.
Nevertheless, the Chinese are continuing programs to enhance their military capability.
The Chinese are also negotiating for Western tech- nology to produce advanced weapons and aircraft for their conventional forces. Beijing has consistently sought weapons production technology and individual components rather than large-scale purchases of finished
This memorandum was prepared by the Regional Analysis Division of the Office of Strategic Research, National Foreign Assessment Center, in response to a National Security Council request. Questions and comments may be addressed

E-1

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

25X1

25X1 25X1

25X1

25X1 25X1

25**X**1

25X1 25X1 25X1 25X1 25X1

25X1

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
weapons in an attempt to achieve self-sufficiency in modern arms production. In the short term, however, the purchase of Western military equipment or technology is unlikely to have a major impact on China's capabilities.
Thus we do not see any significant change in the balance along the Sino-Soviet border as a result of China's military modernization. China will continue to depend on its huge ground forces and limited nuclear deterrent capability to discourage any major attack.
Military Strategy, Posture, and Spending
China sees the USSR as its most dangerous adver-
To counter an invader with superior mobility and firepower, the Chinese rely on advantages conferred by their large forces and defendable terrain. The Chinese hope to wear down the invader in a protracted
conventional war with increasingly stronger forces in well-prepared positions.
The offensive potential of China's military forces is limited by serious deficiencies in mobility, logistics, and weaponry. Although China poses a credible threat to its Asian neighbors, its ability to project its conventional military power against the USSR, Taiwan, or India is severely limited. China currently poses no direct military threat to the continental United States.
China's modest inventory of strategic weapons serves mainly as a deterrent to nuclear attack. Chinese leaders have publicly stated that they will not be the first to use nuclear weapons, and China's strategic and conventional capabilities relative to those of its potential opponents make this a sensible and pragmatic policy.
E-2

25X1 25X1

25X1

25**X**1

25X1 25X1

25X1

25X1

25**X**1

25X1



China's recent National People's Congress gave some insight into the country's defense spending, but we do not have enough information to make a definitive analysis. According to the figures released at the congress, defense expenditures at 16.8 billion yuan accounted for about 15 percent of the national budget in 1978. We do not know if this reflects a true share of the budget--it may cover only current operating costs, with weapons procurement and research and development concealed in other sectors of the budget. Nor can we adequately assess Finance Minister Zhang Jingfu's statement that China would boost defense spending in 1979 by 20 percent. A large part of this increase will probably be used to cover the cost of the recent border war with Vietnam; Zhang also cited the need to strengthen China's "border defenses."

Despite the budget increase, the People's Liberation Army has lost ground as a political institution since the beginning of the year. The PLA gained few kudos for its performance in Vietnam, and the party has carefully diverted attention from the military "victory" toward broader social and economic issues, thus denying the PLA an opportunity for self-aggrandizement. This has been accompanied by a renewed emphasis on the subordination of the PLA to the party; a recent directive calls for party first secretaries to serve concurrently as ranking political commissars of corresponding military organizations.

Strategic Forces

consists of	y growing ballistic missile force MRBM launchers, IRBM	
launchers, and	limited-range ICBM launchers	

The Chinese are developing an SLBM that we estimate will have a range of 1,500 nautical miles. China has one operational ballistic missile submarine--a Soviet

25**X**1

25X1

25X1 25X1 25X1



25X1

25X1 25X1

25X1

25X1

25X1



China also has 95 TU-16 medium bombers and over 400 IL-28 light bombers that are capable of carrying nuclear weapons.

Chinese intend only a small portion of them for delivery of nuclear weapons on targets around the nation's periphery.

Ground Forces

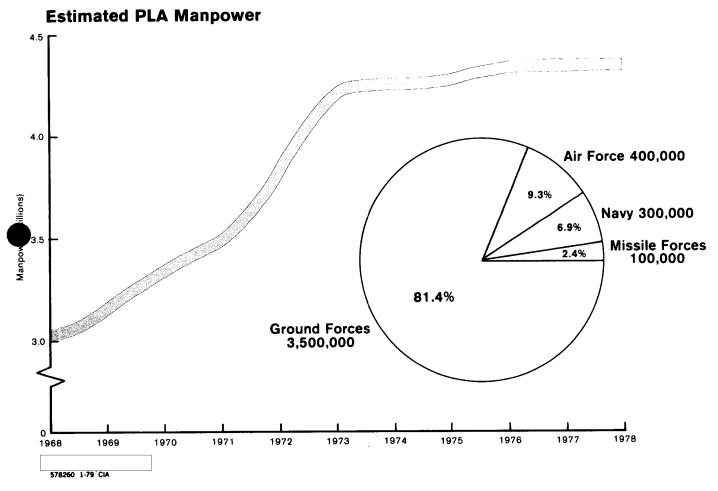
China's greatest strength lies in its huge ground forces (see chart). They number approximately 3.5 million men and are organized into main and regional forces. Main forces are usually better equipped and more mobile than regional forces, and they possess most of China's 6,500 tanks. Regional force units are organized and trained to defend specific areas, and some of them occupy elaborately prepared defensive positions on the principal approaches to key Chinese urban-industrial regions. The vast bulk of ground-force equipment produced by China's arms industry is based on Soviet designs of the 1950s and is unsophisticated by current US and Soviet standards. (See photographs of Chinese armor.)

China's invasion of Vietnam last February provided more than a quarter million troops with valuable combat or combat-related experience. The fighting also underlined weaknesses in China's military training programs and in its logistic operations under combat conditions. The experience in Vietnam will probably accelerate the recent trend toward more realistic training, and the Chinese reportedly now are studying tactics for coping with Vietnamese terrain and strategy.

Air Forces

China's large Air Force consists of some 5,700 combat aircraft, but nearly all are either vintage models or modifications of Soviet airframes of the 1950s.

E-4





Approved For Releas	e 2007/12/06 : CIA-RDF	283R00184R002600590002-8	
	-1 -		
and and control	systems, avionic	deficiencies in com- s, and weapon systems,	
nile its fighter	-bombersas com	pared with late-model short ranges and small	
avloads. The me	edium and light b	combers lack electronic -to-surface missiles-	a
eficienc <u>y makin</u> o	them highly vul	nerable to modern air	
efenses.			2
In the borde	er war with Vietr	nam, China did not en- erical superiority of	
ore than four to	o one. Chinese o	officials asserted they	
IG HOC WALLE CO V	AIREIT CHE SCOPE C	/I CHE WALL	\
avy			
		effort to build a	
odern oceangoin ubmarines, majo:	g navy through co r surface combata	onstruction of nuclear ants, and large auxilia	ries.
			2
	the Chinese	have evanded and	
ccelerated the	construction of 3	e have expanded and large surface warships,	
ncludina destro	vers and frigates	5	
			2
	E-5		

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8



	<u>Modernization</u>
]	The obsolescence of the Chinese armed forces is a result of scientific and research facilities that are too weak to develop modern weapon systems and an industrial base too backward to produce them. Chinese industries lack adequate standardization, quality control, management, and technical expertise in areas such as metallurgy and electronics necessary to manufacture modern armaments. These basic problems have been compounded by the political dislocations of the past 10 years.
	Beijing recognizes that it must have foreign tech- nological assistance to modernize its armed forces,
	With the recent scaling
;	down of modernization goals, however, the Chinese are unlikely to purchase large numbers of expensive weapons systems. They will instead continue to negotiate carefully for those systems that are crucial to long-range military development, such as marine and aircraft enginor are needed to fill critical gaps in Chinese defense,
	such as antiarmor weapons and ground-based air defense systems. In order to maintain independence in the pro-
	duction and use of imported weapons systems, the Chines have consistently sought to obtain production technolog and licensing arrangements rather than large quantities
	of finished items.
	Perhaps the most significant transfer of military technology to China to date is the sale by Britain of
	cocimionody to cirring to date in the name by printarin or

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

25**X**1

25<mark>X</mark>1

25**X**1

25X1 25X1

25X1

25X1

25X1 25X1

					2
					2
					2
					2
					_
					2
<u> </u>					2
					2
short takeoff and	ninese are sti government is udgetary const emier Wang Che during his vis not likely un	raft apped in terms of the committed craints as the committed control of the cont	ears to have ested and be ed to the sa s the reason al order for itain last	e been elieve ale. n for c year,	2
None of the produced or under	foreign weapor	systems	currently b	peing	
significantly alt	er the balance	of force	es along the	Э	

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

25X1

25X1

Sino-Soviet border, where they will most likely be first deployed. The Soviet Union will continue to qualitatively upgrade its forces and maintain technological superiority in that region. Any new Chinese weapon systems would, however, take a much higher toll against invading Soviet armor than weapons now in the

Chinese inventory.

MILAN Antitank Guided Missile System



Man-Portable Mode





Vehicle Mounted

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

Approved For F	Release 2007/12/06 : CIA-RDP83R001	184R002600590002-8
• •	SECKEI	

SCIENCE AND TECHNOLOGY IN CHINA

Executive Summary

Government emphasis on science and technology has been at an all-time high in China since the announcement, in March 1978, of an ambitious eight-year plan for S&T development carefully tailored to China's economic and military needs and containing a wide range of scientific and technical objectives. This emphasis was reiterated in June 1979 at the Fifth National People's Congress (NPC), where it was announced that S&T research will be given more funding in 1979 than it received in 1978. S&T plan emerged from the NPC and the recent readjustment of China's modernization goals with only slight modifications, the main one being addition of transportation and communications to the previous top S&T priorities of agriculture, energy, and materials. Other objectives appear to have remained intact except that even more emphasis will be given to those with near-term, practical applications.

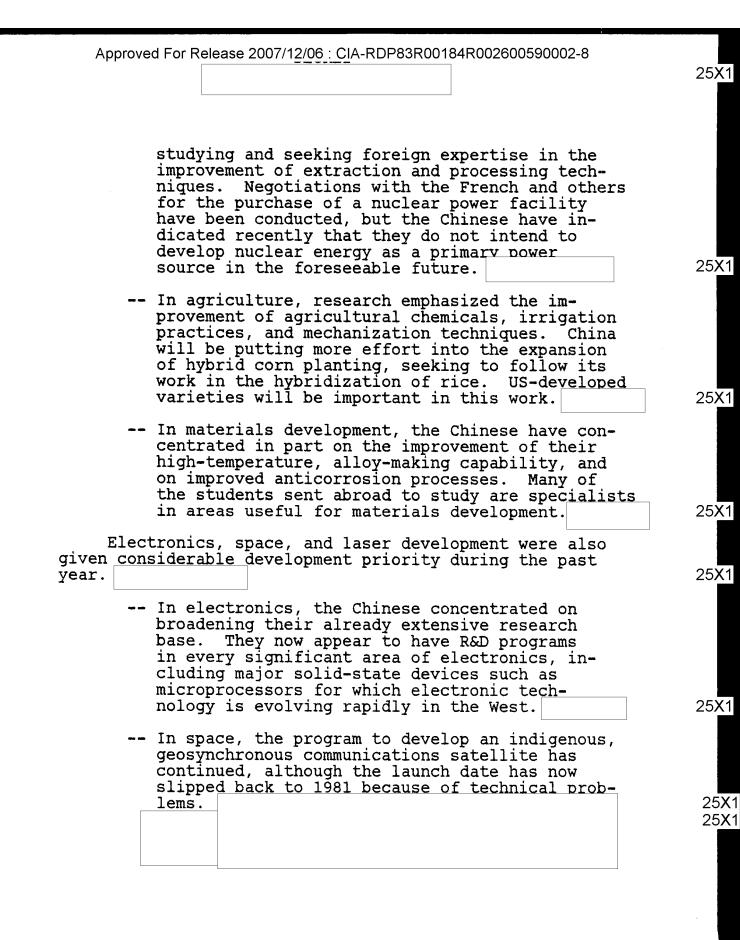
The three areas of energy, agriculture, and materials development received the greatest attention and commitment of funds and resources during the past year and will continue to receive top priority:

-- In energy, the stress has been on the development and acquisition of expertise and equipment-from exploration through refining--that would help increase oil production. Science research in this field has concentrated on improved catalytic processes. Coal mining and processing have also received major attention, with the Chinese actively

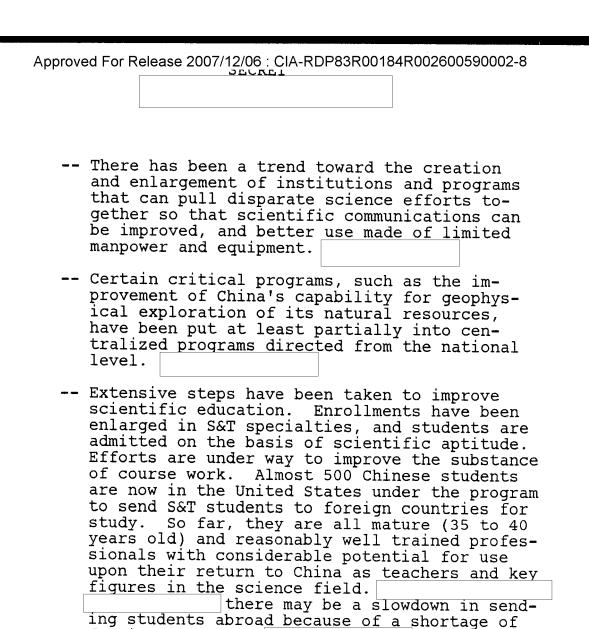
This memorandum was prepared by the Physical Sciences and Technology Division of the Office of Scientific Intelligence, National Foreign Assessment Center, in response to a National Security Council request. Questions and comments may be addressed

25X1

25X1



Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8	25X1
	25 X
	25X1
In lasers, the Chinese have continued to develop their glass laser fusion program, which now is fairly advanced and at a solid technical level.	25.74
	25X1
The Chinese have made some progress toward most of the administrative and managerial goals set in the science plan for the improvement of S&T capabilities in China.	25X1
A start has been made in measures to enhance the status of scientists, including pay raises and promotions. The new policies toward science have engendered considerable enthusiasm among S&T personnel, although there is a lingering fear among some that the policies will not last.	25X1
Recently the Chinese reiterated the importance of political ideology and as they became more cost conscious have scaled down their drive to acquire foreign technology. If these changes in attitude are interpreted by Chinese scientists as a shift back toward policies of the Cultural Revolution, enthusiasm, initiative, and innovation in science in China could be seriously dampened.	25X1
The State Science and Technology Commission, revived in 1977, is following the role set for it as the top leadership's lever on the broad strategy and direction of science.	25 X 1
The Chinese Academy of Sciences has been partially reorganized and streamlined, with Western practices adopted for the approval and direction of research. Similar actions have been taken at the regional and local levels	
of the Academy.	25 X 1



25X1

25X1

25X1 25X1

25X1

The Scientific Environment

foreign exchange.

Clearly, the climate for scientific achievement brightened markedly in China over the last year, with considerable promise of a future rise in the substantive level of science. This promising environment has persisted through the recent readjustment of modernization priorities and the June 1979 session of the National People's Congress, and S&T has emerged with increased emphasis and only slightly modified priorities. It was announced at the NPC that spending for scientific research and research institutes in the 1979 state budget will be increased by 10 percent over 1978. Further,

S&T efforts are to be linked more closely with modernization's top priorities, which now include transportation and communications as well as agriculture, energy, and materials, and are to have near-term, practical applications. Accordingly, theoretical research will receive less emphasis.

25X1

The Chinese are now more than a year into their broad and extremely ambitious plan to bring China up to advanced world levels in a few spheres of science by 1985, and to lay the basis for catching up completely with the world's scientific front-runners by the year 2000. True to their ambitions, the Chinese got off to a fast start in the first 12 months. Major decisions were made on a number of important S&T projects, many administrative and managerial steps were taken to improve the status of scientific work, and a very large effort was started to raise the long-term scientific capability of China by improved S&T education and by greater exposure of scientists to S&T developments abroad.

25X1

In their original planning the top leaders appeared for the most part to be keenly aware of their key S&T problems and to be concentrating on their solution. They tied science and technology goals closely to the general economic plan and to the critical needs for successful modernization, and at the recent NPC stressed that these ties be made even closer.

over the past year, the Chinese were consistently realistic about the backwardness of their scientific

25<u>X1</u>

over the past year, the Chinese were consistently realistic about the backwardness of their scientific situation and about the great difficulties facing them, even if in public, propaganda forums they often appeared overly ambitious and naive concerning the speed with which they could achieve their objectives.

25X1

Despite considerable discussion of the importance of a heavy resource commitment to increasing "basic" science research in China--that is, research pursued primarily for reasons of intellectual curiosity rather than for specific application to economic objectives, the thrust of most, if not all, the science effort in 1978 was on the applications side, but at a level, and with a professional sophistication, well above the

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8
popularized, applied science of the Cultural Revolution years and afterward. This emphasis on applied research was reconfirmed at the NPC.
While it is too early to conclude that the substantive level of science in China improved as a result of Beijing's 1978-79 efforts, it is fair to say that the climate for scientific achievement brightened markedly for some months following announcement of the science plan.
Although the full effects of the modernization re- view on S&T may not yet be apparent, it does appear that the Chinese are especially concerned about:
Keeping economic and S&T priorities in balance with needs and capabilities, including finances and resources.
Maintaining careful control of foreign influence in China.
Making sure that resources devoted to Chinese development of advanced technologies, or to the importation of them, are applied to tech- nologies which meet China's practical needs of modernization.
Putting more stress on technologies that can quickly lead to the development of export products and, hence, to export earnings.
Simultaneously with the economic planning review and revision, there was a renewed concern by the governing authorities in China to enforce political and ideological study and orthodoxy among the populace, including professionals in all fields. This may have cast a shadow over the spirit of free inquiry and nonpolitical progress in S&T that had begun to develop over the past year. How much it undercut the S&T effort is problemmatical at this point. The recent NPC, however, seems to have reendorsed the importance of science in China.

25X1

25X1

25**X**1

Priorities Within the Science Plan

Within the framework of the numerous goals outlined in the 1978 science plan, it is now evident that the Beijing regime had from the start some priorities which it considered more important than others and which it pursued most strongly during the past year. Perhaps the clearest statement of these priorities was offered in mid-1978 by Zhou Peiyuan, a top Chinese spokesman in science. According to Zhou, there were three levels of priority for China:

- -- At the top was the "production-related sector," including agriculture, energy, and materials, to be "developed first."
- -- The "new" sciences of lasers, electronics, and space were assigned second importance.
- -- The "basic sector" (meaning S&T development involving basic rather than applied research) was third. It includes such fields as highenergy physics.

Zhou's statement of priorities appeared quite reasonable in view of two fundamental constraints on S&T development in China: limited finances and limited quantities of trained manpower and equipment. The recent NPC essentially reconfirmed these priorities, with the addition of transportation and communications to the top level and an emphasis on practical as opposed to theoretical research. Some of the objectives of the science plan, such as the development of a major highenergy physics research base involving construction of a large, modern, experimental accelerator, would be extremely expensive to pursue seriously even in the advanced and affluent West and would be especially burdensome for the Chinese to develop on the scale envisioned in their plan, even with extensive outside help and interaction. For plan goals of this type, the Chinese have tended to do a lot of talking and looking at foreign equipment and programs in the field over the past 12 months, but have not made major commitments of funds. Activities such as a high-energy physics program, in the scope envisaged in the plan, are simply not as vital to Chinese security and development as are, for example, agriculture and energy.

25X1

25X1

25X1

25X1

In the first year of the plan, the Chinese put most of their S&T money and much of their manpower resources into the development and acquisition of energy-related technologies. Agricultural research was also a high priority, but one which did not demand the level of funds needed in the energy field. Considerable stress during the first year was also put on the "new" sciences of electronics and space, although it appears that even in these areas, monetary constraints as well as uncertainty about the proper technologies to buy or to develop have delayed decisions and progress.

An assessment of China's present S&T capability in areas given priority attention by the Chinese during the past year, along with some highlights of the developmental efforts during the period, is provided below.

Capabilities and Development in Top Priority Areas

This is a make-or-break area of S&T concentration for Beijing. The success of its hopes for economic and industrial modernization ride critically on its ability to provide adequate energy to run and build its industrial machine and to earn export income from energy sales abroad. This realization was reconfirmed at the recent NPC. China's domestic energy needs are already large and growing, so energy development must be pushed fast and across a broad front that includes oil, coal, and hydropower. The present average technical level of the Chinese in coal and oil production is at least 15 to 20 years behind the latest and best Western equipment, facilities, and level of personnel training. For adequate development of oil and coal production, China needs all kinds of technology at all stages in the cycle from exploration onward. techniques and equipment in offshore oil exploration, drilling, and production are especially limited. Chinese are pinning much of their hopes on developing an abundance of oil supplies, although they are really only at the beginning in terms even of offshore exploration.

By top world standards, Chinese coal mining technology is relatively unsophisticated in that manual labor is depended on to a large extent and the small

amount of available machinery is old-fashioned and inefficient. China has not yet attempted to apply on a significant scale any advanced methods for utilization of coal--such as gasification or liquefaction--in an attempt to get higher levels of energy from a given amount of coal.

25X1

S&T development in the energy field for China is not simply a matter of more manpower, more concentrated effort, or even more money--although all these things are important. Modern techniques, equipment, and expertise are essential. The Chinese moved during the past year to meet their needs as well as they could by bolstered domestic programs as well as by extensive reliance on foreign assistance. One important domestic move was an extensive reorganization of S&T administration in the energy area, especially in the petroleum and petrochemical sectors, where coordinating committees for research were created. In the Chinese Academy of Sciences, energy-related research institute staffs were strengthened, and the institutes were given priority for new equipment, funds, and planning activity.

25X1

Research and development programs under way in this area were reviewed and many of them bolstered. For example, research on better catalysts for use in oil refining and in petrochemical production has been increased, especially on catalysts that operate at lower temperatures and thus help conserve the expenditure of energy in the industrial processes. Catalysts utilizing rare earths, of which China has an abundant supply, are being researched actively, as are polymerization catalysts for use in the production of polymer materials based on petrochemicals. Research is also being pushed to develop petrochemical-based products—such as adhesives, synthetic materials, and additives for lubricants and gasoline—suitable for wide use in industry.

25X1

Improvement of the whole technology base for natural resources exploration, especially oil resources, has been given a substantial boost. A large amount of sophisticated Western geophysical equipment, along with computers capable of handling and manipulating exploration-related data, has been purchased abroad in the past 12 months. The effort to train personnel in this field has been

upgraded, and the program appears to have been redirected to a more nationally centered effort to overcome some of the haphazard, provincially based efforts of the past.

25X1

These actions and others like them taken in the area of energy-related technologies and science will help to raise and broaden the general Chinese S&T capability, but they also indicate that Beijing is starting from such a small and weak base that it will not be able to do a great deal in a hurry by itself. A rapid improvement in its technical capacity in energy can come only as a result of major foreign assistance and involvement. Currently, Beijing is discussing largescale and foreign involvement in the development of offshore oil and in the Chinese coal mining and processing industry. The full outcome of these negotiations in terms of foreign participation is not yet evident. It is probable that the negotiations and the degree and pace at which China should commit itself to foreign assistance in energy development have been included in the general reappraisal by Beijing of modernization plans and expenditures.

25X1

The Chinese are in somewhat better shape in another of their priority energy development areas, that of hydroelectric power. China has the largest hydroelectric potential in the world--some 540 gigawatts, with only 2 percent of it utilized. In numbers of installations, much of the developed hydropower is lowhead, producing a fairly small output, but with relative high efficiency. The emphasis during the past year has been on the design for large-scale, high-dam, hydropower facilities in the middle basins of the Yellow and Yangtze Although the completion of these plans and implementation of the projects will necessitate extensive technological support from abroad, the considerable experience the Chinese have had with hydropower development does give them a leg up in this area. Apart from the capital costs of large hydro projects, their most difficult problems will be efficient site and engineering design, as well as efficient and powerful electric generators at the hydro facilities and adequate high-voltage transmission systems to carry the power to load centers in some cases 2,000 kilometers away.

25X1

In the area of nuclear energy development, the Chinese have long been engaged in the investigation of various types of reactors built in the United States, Germany, France, and Britain and are on record in their S&T plan with an intention to "speed up" the acquisition of a nuclear power facility. Active negotiations with the French have been conducted over the past year for installation of at least two 900-watt pressurized water reactors in the Shanghai area mainly to supply industrial needs. Recently, however, these negotiations In any nuclear power purchase, have been broken off. the Chinese would doubtless be very interested in acquiring a broad range of technologies associated with the construction of reactors -- such as high-quality welding technology. Some of the information acquired could be applied to China's military programs. However, any effort to develop nuclear power as a serious energy option for China at this stage would be extremely costly in money and resources and could not be expected to contribute much to China's overall energy needs in the short term.

Agriculture. China's progress in agricultural research, particularly in the development of diseaseresistant, high-yielding varieties of plants, has been a major factor in achieving near self-sufficiency in food production. Advances in agricultural productivity derived from plant breeding and plant protection research have been achieved largely through application of accumulated past research within China and exploitation of foreign research achievements, accompanied by extensive agrotechnical inputs. Technological developments have occurred in three major areas: agricultural chemicals, irrigation, and mechanization. The Chinese have continued to stress these areas during the past The importance of agriculture was reiterated at the National People's Congress and in the readjustment of modernization priorities, and an S&T Committee has been established under the Ministry of Agriculture to strengthen research efforts in both agriculture and animal husbandry.

A major weakness is China's general lack of basic agriculture research. Instead, the Chinese concentrate primarily on applied research for existing problems.

F-11

SECRET

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

25X1

Although replicated variety trials are used at the provincial level, experimental design and analysis are largely being neglected in agricultural research.

25X1

Further increases in China's rice and wheat production during the next four to five years probably will result from expanded planting of improved varieties derived through applied domestic research with some foreign assistance. The recent development and use of hybrid rice varieties is a major Chinese accomplishment, but definitive assessment of its potential impact on rice production has not been made. Currently available evidence suggests that introduction and utilization of hybrid rice may have been hurried before adequate testing and evaluation. In contrast to rice and wheat, increases in yield and production of corn, sorghum, and soybeans will rely extensively on exploitation of foreign-developed varieties and research achievements (largely those of the United States). Expanded planting of hybrid corn (60 percent of the corn area) already has led corn to replace wheat in terms of production as the number-two crop in China. Further expansion of hybrid corn planting and introduction of improved US hybrid seed could have a major impact on China's efforts to achieve its goal of 400 million tons of grain by 1985.

25X1

Materials. Under this objective in their plan, the Chinese lumped a wide number of S&T efforts ranging from the improvement of steel and other metallurgical processes, through the upgrading of the metal mining industry, and including the development of better capabilities in the newer materials technologies such as reinforced plastics and metal-plastic composites. Although steel has been deemphasized as a modernization goal, it is not known if steel technology research will be affected. As in the energy field, the improvement of China's metallurgical technology, including that of nonferrous metals, is of major importance to its economic modernization. The Chinese capability for making many of the higher grade metal products (hard, temperature-resistant metal alloys, for example, and corrosion-resistant piping) is very deficient. As in coal mining, China's ability to extract and efficiently

F-12

SECRET

and economically process its relatively rich deposits of nonferrous metals--such as copper, aluminum, and titanium ore--is poor. Thus, it needs extractive and processing technology of all types.

25X1

In the past year, the Chinese have begun numerous discussions with foreign firms seeking modern plants and equipment in the metallurgical and metal mining fields and have signed some agreements that are bringing in foreign experts to help assess Chinese mineral deposits, mines, and processing facilities and plans for their improvement. Domestically, the Chinese have given priority to industrial and government-run laboratories working on research in metal alloys and corrosionresistant metals. It is clear that they plan a vigorous program in research fields associated with materials development, and this was so stated at the NPC. of the students being sent abroad are specializing in fields important to materials work--surface physics, spectography, holography, etc. -- and the Chinese have, in the past year, purchased a substantial amount of foreign-built instrumentation useful to materials research.

25X1

The Chinese badly need to make progress in the area of materials technology if they are to establish advanced manufacturing abilities of their own for such things as aircraft and industrial turbine engines using heat-resistant alloys and durable and high-capacity seamless piping of various types--products that are vital to a multitude of modern industrial processes. The expansion of polymer research has also been significant during the past year as the Chinese see the increasing need for cheap materials for all kinds of uses by their large populace and strive to lessen their dependency on agriculture for such materials. There is strong emphasis on the molecular and solid-state characterization of polymers in the Chinese research.

25X1

If the Chinese continue to make a vigorous effort in the materials field, where progress is usually characterized by a lot of small advances across a broad S&T front, their technological level in this sector should rise substantially in a few years.

25X1

The "New Sciences"

As previously noted, Zhou Peiyuan placed the development of electronics, space technology, and lasers at the second level of scientific priority for China and, as a consequence, Beijing has taken considerable action in these fields in the past year. At the Fifth National People's Congress in June, Chairman Hua Guofeng mentioned electronics as important to modernization, and with this endorsement and its numerous applications, it can be expected that research in electronics will continue to receive emphasis. The priority given to communications at the NPC very possibly may include satellite systems, but this has not been confirmed. It is too early to tell how laser research will be affected by NPC decisions.

Electronics. It is frequently noted in the Western media that China's overall level in electronics lags that of the United States or Japan by at least 10 years. Such a comparison, while technically accurate, is not very realistic in assessing the real Chinese situation in electronics, a field where vast amounts of capital are often not necessary for important advances, but where a well-conceived, vigorous, and balanced R&D effort with good research equipment and a sould wellinformed cadre of experts is very important. China's present level of electronics technology is, on the whole, rather respectable. China has designed and produces in limited quantities a wide range of communications, industrial electronics, and computer equipment, some of it using modern digital circuitry, solid-state components, and medium-scale, solid-state integration of components. The level of this equipment is probably adequate for most of China's present economic and industrial needs, although it is inadequate in such important, advanced civil sectors as geophysical prospecting, precision instrumentation and test equipment, and high-speed, high-capacity computers for arranging and analyzing large amounts of data. Chinese abilities are also inadequate in the indigenous development of military weapon systems, where the Chinese lack, among other things, adequate microminiaturization of components and small, high-power amplifying devices.

25X1

25X1

25X1

If they are to build their electronics capability effectively for the future, the Chinese need to concentrate on three important areas:

- -- Rationalizing and expanding their R&D base and substantially improving coordination and management of various R&D efforts.
- -- Choosing a proper and balanced selection of promising advanced electronics technologies on which to concentrate in R&D development.
- -- Improving the production side of the electronics effort, including substantial capital investment in new, especially automated, production facilities and a substantial effort to upgrade quality, quantity, and standardization of production in existing facilities.

The Chinese R&D base for electronics development is already extensive, with some facilities doing very respectable work, especially in low-power, solid-state devices. While China lacks the numbers of electronic experts that it could usefully put to work, it does have a solid and experienced cadre that is impressive by the standards of the lesser developed nations.

Over the past year, the Chinese appear to have concentrated on bolstering the R&D capability they already have and in expanding R&D in areas that might allow them to leapfrog over some stages of electronic development in the West. They seem to be fascinated, for example, with the possibility of linking a large number of microprocessors together in such a way as to create supercomputers, thus jumping over some of the long and expensive programs undertaken in the United States and elsewhere to develop the present generation of largecapacity scientific computers. Most Western experts believe that a microprocessor-based supercomputer would not be worth the effort because of control and programing complexities. Its technological feasibility in the West, let alone in China, is questionable. Still, there is an active Chinese study program on such computers under way. Chinese capabilities for the manufacture of microprocessors themselves are still backward by Western standards, but the Chinese are putting considerable effort into R&D on such devices.

F-15

SECRET

25X1

There is, in fact, probably no significant area of electronics research where the Chinese do not now have an active R&D program or are not closely monitoring Western progress before deciding if and how to focus a particular program of their own. The very speed with which the electronics field is developing in the West has apparently imposed problems for the Chinese in deciding how to focus their own research. In the field of electronic memory devices, for example, where the Chinese hope to improve significantly their capabilities to accommodate the memory needs of coming generations of computers produced in China, Beijing has been pursuing R&D in such memory alternatives as magnetic bubbles and charged-coupled devices. Recently, however, it reportedly has decided to evaluate Western progress in these and other technologies before deciding on the commitment of further Chinese resources to greater effort in one or another memory technology. The development of increased memory capacity and speed is a vital objective for the Chinese in the design of the next generations of Chinese computers.

On the whole, in China's best laboratories and academic institutes, theoretical understanding of computer technology, including design, operations, and programing, is on a par with that of the West. During the past year the Chinese have striven to widen the base of this expertise. They now are producing their third-generation models of electronic computers; one mainframe machine has a speed of about 2 million operations per second for general purpose calculations. Initial production of a new minicomputer with speeds approaching 1 million operations per second has been pushed during 1978, and it should be in substantial production before long. In terms of electronic components, the present Chinese computers are on a par with US equipment produced in the early 1960s and use logic circuitry designs typical of American equipment in the early 1970s. Auxiliary storage and peripheral equipment (input-output devices, etc.) remain major weak spots in Chinese computers and the Chinese are concentrating on improvements in these areas.

Demand in China for computers of all types will far outpace production in the foreseeable future, and the Chinese will have to greatly step up their computer

F-16

SECRET

production by making it more efficient, by adopting more rigorous quality control and testing procedures, and by increasing production capacity, if they are to meet domestic needs in any serious way in a sector of considerable importance to modernization progress. A computer production improvement and expansion program is under way. An increased effort in software development and support equipment will also be required in the future. Standardization and compatibility in operating system software will be important. As greater numbers of computers are installed, better and more extensive applications of software as well as training of programers and operators will be necessary to use computers effectively.

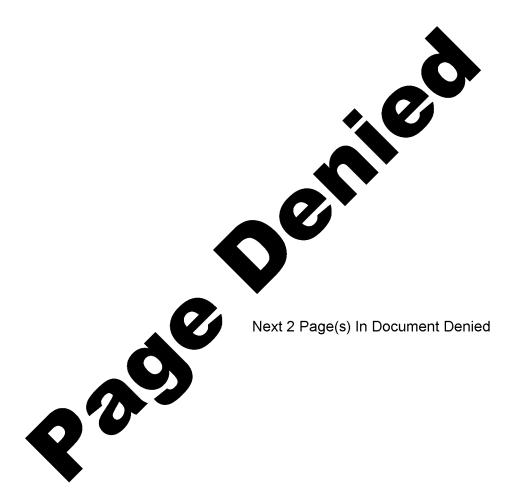
25X1

Improving the production side of their electronics effort overall may well prove the biggest short-term problem for the Chinese, principally because it will require substantial capital investment. Negotiations have been going on during the past year for much new, advanced foreign plant and equipment to produce a broad range of electronic components from integrated circuits through TV picture tubes and associated TV parts. Final conclusion of most of the deals is still pending, as the Chinese seek better prices and assess rapid technological advances in electronic production abroad. Beijing hopes to avoid purchase of equipment that could rapidly become obsolete, since this is a big problem in electronics. Electronics is also a field, however, where, with the proper product mix, rate of manufacture, and effective marketing, the Chinese could easily make some rapid returns on their investment through export sales. It seems likely that some significant final decisions on electronics production investments will be made in Beijing during the coming year.

25X1 25X1

25X1

25X1



25X1

Other Technologies

Apart from the fields of emphasis in the science plan, the Chinese have been active in the development of many other important technical areas during the past year. Aeronautics, chemistry, and chemical engineering provide examples.

Aeronautics. Beijing has big hopes for the improvement of its airframe and engine design and manufacturing capability. A large part of the short-to-medium-range Chinese civil aircraft fleet is currently composed of obsolete turboprops, and China must begin to replace these planes soon if it is to expand its domestic and international air routes.

The current goals of the Chinese are the production of a domestically designed jet fighter, development of a transport aircraft, better quality parts, higher caliber personnel, and a sharp upgrading of the overall aeronautics technology level. Chinese engine design capability is especially low and production technology in engines lags the West and is based on Soviet engines. Manufacturing rejection rates are high, and engine life is short. This year, the Chinese will put together their first British Spey engine from scratch under a deal signed with the British in 1975, but most of the parts will be British made and a 100-percent Chinese-produced Spey engine is still several years away. Eventually the Chinese will assimilate the Spey technology, and this will bring their overall aircraft engine capability up to Western levels of the mid-1960s.

The Chinese now are looking at the acquisition of a 1970s-level Western engine and airframe manufacturing capability, especially in engines in the 50,000-lb thrust range. These are high bypass turbofan designs with a considerably higher level of technology for the Chinese to assimilate than the Spey. They have discussed deals for the manufacturing technology for such engines as well as for jet airframes such as the DC-9 and A300 with major US and European manufacturers.

this engine technology would boost them to a par with current Western technology. So far, the only purchase

F-21

SECRET

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

25X1

25X1

25X1

25**X**1

25X1 25X1

made this year in the area of high-thrust engines and large airframes has been of three Boeing 747SPs scheduled for delivery to China over the next two years.

25X1

25X1

Chemistry and Chemical Engineering. Although chemistry was not singled out as one of the eight areas for concentration in the science plan, its development is highly important to China. China apparently developed its plans for chemistry by attempting to reconcile several considerations: (1) the relevance of various areas of chemical research to the needs of agriculture, industry, and national defense; (2) the relevance of chemical research to other areas of science; and (3) the importance of various areas of research internal to chemistry itself. The first area appears to have received the major commitment of funds and manpower during the past year. For example, the Institute of Applied Chemistry in Kirin, which carries out a great deal of petrochemical-oriented chemical research, is among the best equipped laboratories in China, and some of the best work observed by Western visitors during the past year is going on there. Much of the substantial amount of scientific instrumentation purchased by the Chinese during the past year has been for use in chemical laboratories. Training in chemical engineering and technology now is among the priority university S&T majors, and the number of chemical engineering trainees has apparently increased during the past year. expertise will be important to Beijing in coming years, especially in its efforts to expand its manufacturing ability for synthetic fabrics and other materials and to develop export earnings from this industry.

Administrative Improvements

Along with their priorities in substantive fields of S&T, at the National Science Conference in March 1978 the Chinese also established some administrative and management priorities as part of their S&T plan. The most important goals in terms of their potential impact on Chinese scientific development were:

-- A major increase in state funding for science. A further increase over 1978 funding was announced at the National People's Conference.

F-22

SECRET

- -- A major expansion of scientific education and an upgrading of educational quality, particularly graduate education. This was also reemphasized at the NPC.
- -- A revival and reorganization of the Chinese Academy of Sciences, the overseeing body of higher Chinese science, along with the professional science societies and the professional science journals.
- -- A recentralization of much of the upper-level administration of science so as to overcome the extreme decentralization that took place during the Cultural Revolution and had increased the traditional lack of cooperation and communication among scientists in China.
- -- The adoption of a more responsive and flexible system for planning and approving science projects and activities from the national through the laboratory level.
- -- The vesting of day-to-day responsibility for scientific planning and research direction in the hands of professional scientists, rather than in party officials as had been the situation during the Cultural Revolution.
- -- A relaxation of political indoctrination for scientists so they could devote more time to research, and an improvement of their salaries and status in Chinese society.
- -- Initiation of a regular program of conferences for individual scientific specialities and the start of an educational program for the popularization of science to raise the level of national interest and capability in S&T.

25X1

Progress Toward the Goals

Within the past year, the Chinese have devoted considerable attention to all of these goals, and have made some progress in each. A start has been made in measures to enhance the status and livelihood of scientists, including raises in pay. For the most part, however, the actual increase in material incentives for scientists is more of a promise than a reality as yet. It is not evident whether the promises made to raise the status and salaries of scientists are also aimed at other important elements of the professional technical corps such as engineers and designers.

For the next few years at least, the new emphasis on science--if conducted along the lines of 1978 activities--should provide considerable professional stimulation for scientists and other high-caliber professional personnel. Opportunities to meet visiting Western scientists and for travel abroad to learn of and share in what is going on in science in the West is probably a very strong incentive by itself for hard work and industriousness on the part of most Chinese Added to this is the promise by the governscientists. ment eventually of more funds, modern equipment and facilities, and less political control as an environment in which to work, although as noted earlier, statements in the Chinese media in recent weeks have cast some doubt on the extent to which scientists will be allowed to avoid participation in political activities. The recent crackdown on dissidents in China who have called for greater "democracy" in the political, economic, and social system could prove a chilling development to the technical class, who are painfully aware that similar drives in the past adversely affected their status.

Administration. The administrative control of science appears to have been substantially reorganized and rationalized since the science conference, although there is still an overly pervasive scientific bureaucracy that is an oppressive burden on progress. The revived State Scientific and Technical Commission (SSTC) under the authority of Vice Premier Fang Yi is performing the role that was envisioned for it when it was reestablished in late 1977 to provide the top leadership with a direct national-level control over the broad

F-24

25X1

strategy and direction of science. Fang was the senior science official accompanying Deng Xiaoping on his trip to the United States, in which the examination of US science and technology was a top priority. He is Deng's chief agent in the implementation of science programs in China. Reports of decisions of the initiation of costly programs or on the purchase of expensive scientific equipment or foreign technical help indicate that it is the SSTC that is making the decisions or staffing them to the Politburo. It is evident that Chinese leaders at the level of the State Council now see the importance of adopting effective planning and management techniques modeled on the comprehensive and specialized examples of planning in advanced Western nations. trend is being carried over to the SSTC and to subordinate organs like the National Academy of Sciences that are engaged in implementing national-level objectives.

Below the SSTC there has been a strengthening of national-level organizations on two fronts: the Chinese Academy of Sciences and the various state ministries with responsibilities that involve scientific development. Officials in the Academy, most of them party members who were naturally sympathetic to the science policies espoused by the current regime, have taken over leadership posts in the Academy and there has been streamlining of the Academy organization. A recent listing of the main research institutes of the Academy, provided by the Chinese, shows that they have taken steps to improve the coordination of research and development efforts.

The choice and direction of scientific research projects approved or conducted under Academy auspices have been put under closer professional scrutiny by men with scientific backgrounds, rather than remaining under near-total party supervision as in the past. Professional committees in the various departments of the Academy, largely inactive during the past 10 years, have been revived and are sitting as peer groups in the Western scientific style, judging the merits of science projects and scientific work and even the merits of the scientists themselves. The same types of procedures are being instituted in regional academies and in the scientific and academic research institutions.

25X1

F - 25

It is evident, however, that the picture is not wholly positive in terms of improved administration of science. Many of the key staff members in the top levels of the science bureaucracy still are not professional scientists and, in their administration and in the decisions they make, do not really appreciate the peculiar problems of science. The regime is attempting to improve the scientific understanding of these individuals. In such tautly run organizations as the Ministry of Petroleum, the party administrators have been asked to attend classes on basic science and to raise their level of comprehension. As with the scientists, however, there is still some reticence on the part of many staff members to become too involved in progressive science policies, since they recall that regime policy has several times in the past shifted against scientific work and scientists, causing those who have been too far out in front in the advocacy of progressive policies to be harassed and humiliated. The recently renewed emphasis on political study and orthodoxy by Beijing can only serve to heighten this sense of caution.

Approach to Research. The Chinese have also taken some actions intended to improve the specific and administration and focus of scientific research and development. An effort has been made to cut down on the fragmented, decentralized style of R&D in China whereby various groups of scientists tended to do their own thing with very little reference to the work of other groups who might be working in the same field or to communicate with them. In the past in some scientific areas, there was a proliferation of research institutes and groups, often with each institute working on some subspecialization with very scant results because of its isolation, its lack of good equipment, and perhaps a lack of skills elsewhere available. Now, the Chinese are trying to amalgamate some of these scattered efforts by pulling them together in one institute. notion is to improve communications, the common use of limited equipment, and the sharing of expertise.

The Chinese have announced that they are going to favor some research efforts over others by giving choice in the use of funds, manpower, and equipment to a group of designated "key" institutes chosen on the basis of

F-26

SECRET

25X1

SECRET

subjects that "lead and influence the development of the rest of science" and where a "good foundation" for research work already exists in China. About one-third of the approximately 2,000 civil R&D institutes or facilities existing in China in early 1978 (including those under the Academy, government ministries, industry, and academe) were to be designated key institutes, and were to be operated as "models" for the rest. We do not yet know how extensive the implementation of this program has been. Whatever Beijing's policy, there will continue to be widespread infighting over the available resources among scientific institutions in China because of the extensive, fragmented bureaucracy that exists and can back a fight for the support of its favorite R&D effort.

There has also been a trend toward the formation in China of umbrella scientific institutions devoted to the advancement of the S&T process as a whole in a group of related sciences. The notion apparently is to bring together the whole of the S&T process from the research phase, through development engineering and pilot production. This has long been done at such respected facilities in China as the Institutes of Physics and Computer Sciences in Beijing—and these organizations have themselves been strengthened in the past year. However, some new ones, such as the National Academy of Space Technology have also become more active during the year.

So far, most evidence of the adoption of new techniques or of the modernization of research techniques has been reported from organizations directly under the authority of the central government. There has been little reported from the industrial R&D sector. This fact tends to illustrate one of the traditional weaknesses in the Chinese science system: the tendency for the government to be the central and almost singular link between the various R&D sectors. It seems likely, nonetheless, that the trend in the government-run sector toward the concentration of S&T activities and the upgrading of their quality is probably being repeated on the industrial side and will become evident as time goes by.

F-27

SECRET

25X1

25X1

25X1

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

G

SECRET

25X1

25X1

WATER CONTROL PROJECTS IN CHINA

Executive Summary

Developments Since 1949. Since the Communist government gained control, the Chinese have made considerable progress in developing water resources. In some instances, however, rash planning and politically induced construction delays have been very disruptive.

(Page G-3)

Flood Control and Irrigation. Irrigation and drainage facilities have been built or improved to serve most of the readily accessible cropland in China; at present, 47 percent of the cultivated land is irrigated. The Communist government also has made great strides in the mechanization of irrigation and drainage and in maintaining and improving flood control facilities. (Page G-6)

Hydroelectric Development. China's huge hydroelectric potential has been barely touched, partly because of delayed construction timetables caused by political disruptions and partly because of the remote location of many of the best sites. China's inability to handle the required construction and transmission technology has also held the program back. Nevertheless, important gains have been made in design and construction of hydroelectric plants and in manufacture of power equipment of various sizes. An interesting feature of the hydroelectric program has been the construction of some 88,000 tiny hydroplants in rural areas. (Page G-7)

Navigation. Inland waterways account for a sizable part of China's modern transport performance; particularly important is the waterway system of the Chang Jiang (Yangtze River) and its tributaries. (Page G-11)

This memorandum was prepared by the China Division of the Office of Economic Research, National Foreign Assessment Center, in response to a request from the National Security Council. Questions and comments may be addressed to

25<u>X1</u>

25X1

25X1

SECRET

Fisheries. Freshwater fisheries have played a significant role in local ecological systems for centuries and are highly developed. In recent years, however, they have not received much attention and production has fallen off. (Page G-12)

25X1

Present Plans. Chinese planning in water resource development still appears to be in a state of flux. Nevertheless, the high priority being given to energy, agriculture, and transportation has been reflected in great interest by the Chinese in taking steps to rapidly expand their water utilization program. A number of large projects have been started, and many more--including some of the most gigantic schemes in the world--are in the planning stage. Some of the projects, especially the larger ones, may be cut back or postponed once the Chinese reevaluate their total cost, the length of time it will take to complete them, and their effectiveness in relation to alternate means of providing electric power and irrigation water. (Page G-13)

25X1

Specific Projects. Three projects that have received a lot of attention by the Chinese may be beyond China's present financial and technical capabilities. These are the 25,000-megawatt Sanxia dam and power plant on the Chang Jiang, a water diversion scheme to move large volumes of water from the Chang Jiang to the semi-arid North China Plain, and the Longmen dam and power plant on the Huang He (Yellow River). (Page G-15 and Appendix A)

25X1

Need for Foreign Help. We expect some very large projects will be built, and that these projects will require Western expertise and equipment. The Chinese already have approached a number of countries, including the United States, for help in their water control projects. The areas where they are most likely to need assistance are in planning water resource development, management of large-scale projects, advanced construction and power-generating equipment, and high-voltage transmission networks. We also expect them to seek Western help, and possibly equipment, to improve traffic control on inland waterways and to increase the effectiveness of their irrigation schemes. (Page G-22 and Appendix B)

	SEC	RET	

25X1

25X1

Foreword

Inland waterways have played a vital role in China's economic development through the ages. Just as in the West, the earliest civilians were clustered along the banks of rivers—in China mostly along the Huang He (Yellow River) and its tributary, the Wei, in the north—central part of the country. The rivers renewed soil fertility as they dropped off large quantities of silt during annual floods; they supplied water for the needs of the people, their animals, and—in times of drought—their crops; and they provided a ready means of transport. The rivers also caused great anguish when ram—paging floods took a heavy toll of life and property.

Gradually, over the years, dikes were built to control the flood waters and elaborate systems were developed to carry water to the fields for irrigation and to flood rice paddies. An extensive system of inland transport also was established by construction of interconnecting canals and by dredging shallow stretches. The rivers and adjacent flood control basins and ponds became centers of a thriving fishing industry. Finally, the rivers themselves became sources of power; not only to serve the irrigation and drainage systems, but also to provide energy to nearby factories.

Water Development Programs Under the Communists

When the Communists took over in 1949, they inherited a vast but antiquated water control system that had been badly ravaged by decades of internal strife and the war against Japan. First priority was given to controlling the lower course of the Huang He, where heavy silting had necessitated ever higher dikes and the threat of severe flooding was becoming greater and greater. In the early 1950s the Chinese concentrated on strengthening these dikes and on establishing a series of flood control basins.

In 1955 a plan for controlling the entire Huang He system was announced. This plan was aimed mostly at flood prevention through a series of projects that also would provide water for irrigation and electric power production and for better navigation of segments of the river. Water conservancy measures—especially to control the amount of silt entering the middle reaches

25X1

SECRET	

of the river from the loess highlands--were important features of the plan. Besides the efforts to control the flow of the main stream, dams were to be built to check the influx of silt from tributaries and huge afforestation schemes were to be promoted.

Elsewhere in China, the government moved to improve existing irrigation and drainage systems and to enhance the navigability of certain inland routes. Also, a nationwide survey of hydroelectric potential was completed and a number of sites were chosen for development. During the Great Leap Forward (1958-60) these programs were speeded up and dozens of major multipurpose water control projects were undertaken.

Chinese planners, however, had not fully reckoned with the complexity of these projects and, especially after the withdrawal of Soviet aid, were unable to carry on with much of the work. Resources—both material and technical—had been spread too thin. Those projects that were continued took 10 to 20 years to complete instead of the originally scheduled three to five. And some of the multipurpose features were neglected. The giant dam at San—men in the middle reaches of the Huang He, for example, was built, but, because the silt-control features of the Huang He plan were not implemented, the electric power facility had to be redesigned for a capacity of 250 megawatts (150 MW have been completed) rather than for the 1,050 MW originally planned.

There were numerous other instances of faulty planning and implementation. In some cases large amounts, of good farmland were lost as needless reservoirs were built; dams were built without allowing for fish migration, causing huge losses in fishery output; water use was not carefully regulated, and large amounts of soil were lost to salinity in North China; and dams were so shoddily constructed that they endangered life and property downstream.

Despite these problems, considerable progress was made (see table 1 for selected multipurpose development projects). The following sections describe some of the major features of water control projects in four areas: flood control and irrigation, hydroelectric production, navigation, and fisheries.

SECRET

G-4

25X1

25X1

25X1

25X1

25X1

SEC	RET	

Table 1

China: Selected Multipurpose Development Projects

Liujiaxia, Huang He, Gansu - large dam on a major river:

- -- 1,225 MW; generates on an average of 5.7 billion kWh per year.
- -- Regulates river flow to prevent floods and provide adequate water for industrial use to downstream factories throughout the year. Water spilling at downstream hydroelectric stations has also been reduced by smoothing out the Huang He's yearly flow.
- -- Provides water for irrigation and power to operate pumping stations and wells.
- -- Provides water for aquaculture.

Danjiangkou, Han Shui, Hubei - large dam on a major river:

- -- 900 MW; generates an average of 4.5 billion kWh per year.
- -- Flood control was a key component of the project; floods on the Han Shui have been reduced.
- -- Created a navigation channel for 150-ton barges extending 150 km upstream. The dam improved navigation on the Han Shui's lower reaches by reducing seasonal fluctuations in flow and thus stabilizing the course of the river.
- -- Provides irrigation water in northwestern Hubei and southwestern Henan.
- -- New fisheries have been set up in the reservoir.

Gudoushan water conservancy project, Xinhui County, Guangdong - many small dams:

- -- Primary purpose is power generation; 20 small hydroelectric plants have a total capacity of 7 MW and generate 20 million kWh per year on the average.
- -- Reservoirs were stocked with 1 million fish fry.
- -- Irrigates 3,300 hectares of farmland.
- -- Reservoirs are <u>surrounded by 670</u> hectares of fir, pine, and fruit trees.

G-5

SECRET

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

25X1

25X1

SECRET			

Flood Control and Irrigation

Irrigation and flood control projects are essential in China because of intensive agricultural practices and the seasonal distribution of rainfall, especially in North China where spring drought and summer floods require irrigation and flood control for stable agriculture. Irrigation allows the cultivation of high-yielding and more desirable crops such as wheat and rice, the expansion of the sown area through multiple cropping, and the more efficient use of insecticides and chemical fertilizer.

Irrigation in China extends back over 2,000 years to the Dujiangyan Irrigation System in Sichuan. Throughout China's history, maintenance and expansion of dikes and irrigation projects was a major role of the government. The floods and famines caused by neglect of dikes and irrigation works often preceded dynastic change.

By 1930, 69 percent of the cultivated area in the rice regions and 15 percent of that in the wheat were irrigated. The lack of maintenance and the destruction during the Japanese invasion and the Civil War caused the area of irrigated land to decrease to 16 percent of the arable land at the time of the Communist takeover.

Since 1949 the Chinese have made great strides in irrigation as shown in the following tabulation:

1949 1957 1965 1970 1975 1979 Irrigated Area (million hectares) 16.0 34.7 (data not available) 46.7 Irrigation and Drainage Machinery (million horsepower) 0.1 0.6 8.4 16.9 43.0 64.0

During the First Five-year Plan (1953-57), the irrigated area was expanded to about 30 percent of the cultivated land. In the 1960s, the irrigated area was further expanded; mostly in the North China Plain through the use of tube wells. At present, 47 percent of the cultivated land in China is irrigated (see map). The Chinese now have 250 large and medium reservoirs and 82,000 small reservoirs with a total storage capacity of about 400 billion cubic meters.

G-6

SECRET

25X1

25X1

25X1

25X1



SECRET			

China also has 165,000 kilometers of dikes which protect about 32,000 hectares of land. Despite the work on flood control, major floods occurred on the Huang He in 1958 and the Hai He in 1963.

25X1

Hydoelectric Development

To date, China has tapped 13,000 MW or 2 percent of its vast hydroelectric potential--officially estimated at 580,000 MW (see table 2). This includes more than 5,000 MW in small hydroelectric plants. Large hydroelectric stations with a total capacity of about 8,700 MW are now under construction.

25X1

For political, technological, and economic reason, more than half of China's hydroelectric potential is now beyond Beijing's reach; similar factors have slowed development of the balance. Rivers separating China and the Soviet Union hold some 15,000 MW which cannot be developed unless the relations between Beijing and Moscow thaw. Another 20,000 MW in boundary rivers with North Korea would, if harnessed, almost certainly be shared equally between the two countries. Some 260,000 MW in western China cannot be economically transmitted to major load centers with China's present transmission capabilities (maximum line capacity of 330 kilovolts). Of the remaining 290,000 MW of hydro capacity, an estimated 145,000 to 220,000 MW is now economically exploitable.

25X1

From 1949 to 1959 the Chinese made great strides in their ability to develop hydropower resources and embarked on an ambitious development program. Immediately following the revolution, the Chinese surveyed their large rivers for energy potential. In addition to the Huang He Development Plan, Beijing sketched--with Soviet help--plans for the multipurpose development of a number of rivers including the Chang Jiang (Yangtze River) and the Xi Jiang (West River). With Soviet, Czechoslovok, and East German aid, China started 26 hydroelectric stations. Eleven, with a total capacity of 530 MW--more than twice China's 1949 installed hydro capacity--were completed by yearend 1957.

25**X**1

The ambitious hydropower program of the Leap Forward called for work to begin on 275 projects with designed capacities totaling 25,000 MW, including nearly all of China's present hydroplants larger than 500 MW. But the excesses of the Great Leap crippled China's economy,

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

SECRET

25X1

25X1

25X1

Table 2

China: Geographical Distribution of Hydroelectric Resources		
Region	Mean Theoretical Hydropotential (MW)	
Northeast (Liaoning, Jilin, Heilongjiang)	15,800	
North (Hebei, Shanxi, Nei Monggol)	11,300	
Northwest (Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang)	52,400	
Southwest (Sichuan, Guizhou, Yunnan)	269,900	
Xizang	148,100	
South Central (Henan, Hubei, Hunan, Guangxi, Guangdong)	56,500	
Eastern China (Jiangxi, Shandong, Jiangsu, Anhui, Zhejiang, Fujian)	25,900	
<u>Total</u>	580,000	

SECRET

slowing construction. The Soviets dealt the hydro program another blow by withdrawing their aid in 1960. Most planned hydroelectric stations never got off the drawing boards, and many that did, especially the larger ones, were not completed for more than 10 years.

25X1

The hydroelectric construction program fell prey to internal politics in the late 1960s and early 1970s. The Cultural Revolution (1966-69) and the Gang of Four's dominance (1974-76) destroyed much of the hydro program's foundation, which had been laid during the 1950s. Chinese officials have started that during those years all hydro surveying, design, and research organizations were dismantled; technical personnel were sent to the countryside; and hydrological and geological data were destroyed, seriously weakening the hydro construction industry.

25X1

An interesting feature of China's electric power development program has been the construction of thousands of tiny hydroelectric stations in rural areas. These small plants--which now average 60 kW of capacity-are making an impressive contribution to China's power supply. As of April 1979 they numbered 88,000, with a total generating capacity of 5,380 MW, 30 percent of total installed hydroelectric capacity.

25X1

The small hydro program was begun in the 1950s. Under the slogan "walking on two legs," Beijing promoted the development of local resources on a small scale by lower echelon administrative units to parallel large-scale development projects. The small hydroelectric program made good use of idle labor and brought cheap electric power to a vast number of rural countries and villages more quickly and economically than a rural electrification program based on a large investment in a sprawling transmission network would have. Although the program was allowed to lapse in the 1960s it is now again in high gear. In 1978, 940 MW of small hydro capacity were added. At present 12,000 plants with a capacity of 3,500 MW are under construction.

25**X**1

Although they have made some serious blunders, the Chinese have demonstrated in the past 30 years that they can design and build hydroelectric plants and equipment of a variety of sizes (see table 3 for a list of major projects that have been built). And under the right circumstances China can construct hydroelectric plants

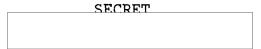


Table 3

China: Hydroelectric Plants of 300 MW or Larger

25X1

25X1

25X1

Plant	Location	Capacity (MW)	Date of First Generation
Liujiaxia	Gansu, Huang He	1,225	1969
Danjiankou	Hubei, Han Shui	900	1968
Supongdong	Liaoning, Yalu Jiang	700 (shared with North Korea)	pre-1949
Xinanjiang	Zhejiang, Fuzhun Jiang	652	1959
Dafengmen	Jilin, Sunghua Jiang	590	pre-1949
Gongzui	Sichuan, Dadu He	580	1971
Zheji	Hunan, Si Shui	420	1962
Haludao	Jilin, Yalu Jiang	400 (shared with North Korea)	1960
Fengtan	Hunan	300	1970
Bigou	Gansu, Jialing Jiang	300	1970
Yanguo	Gansu, Huang He	300	1962

G-10

SECRET

25**X**1

25X1

river navigation routes are navigable by motorized vessels of at least 70 deadweight tonnage (DWT). The Chang Jiang and the Xi Jiang of south China are the most suitable of China's rivers for large-scale movement of goods on motorized vessels throughout the year. In Northeast China, the only other area where some of the rivers are suitable for large-scale movement of motorized vessels (mainly the Heilong Jiang and the Songhua Jiang), river traffic is limited to the ice-free season, which usually lasts about seven months. In North China, where the ice-free season is much longer but the number of rivers is reduced, river depths greatly restrict the long-distance movement of goods on waterways.

The Chang Jiang drainage basin, which covers about 20 percent of China's total land area, accounts for the greatest single part of the 70,000 kilometers of waterways suitable for motorized freight traffic, and is by far China's most important navigational river system Since 1949, waterways along the Chang Jiang and its tributaries have been deepened or widened to increase their total navigable lengths from less than

SECRET	

10,000 to more than 30,000 kilometers. In itself, the 6,300-kilometer-long Chang Jiang, with more than 3,000 kilometers of navigable waterway for motor vessels, accounted for some 42 million tons of river freight in 1978. This is a 68-percent increase over the 1966-76 period, when the annual volume of freight was around 25 million tons. The large increase in river freight tonnage on the Chang Jiang has resulted largely from riverbed improvements and from the recent introduction of electronic communication systems on vessels and on shore. Since 1976, the Chang Jiang has provided a year-round motor vessel route where 10,000-DWT vessels can sail inland to Nanjing, 5,000-DWT vessels can go on to Wuhan, and 3,000-DWT vessels can travel upriver as far as Ipin in Sichuan Province.

In North China, most of the waterways--including much of the Grand Canal--are of limited use as navigable waterways because of silting and low water levels.

Motorized vessels in the few-hundred-ton class can travel the reconstructed portions of the Grand Canal and parts of the Lower Huai He. Unlike South China, with its well-developed water transport network of rivers and canals, North China has been forced to develop and rely on more costly overland transport to move most of its bulk freight.

Freshwater Fisheries

The raising of freshwater fish in China dates back more than 2,000 years and has become an integral part of the agricultural system in many rural areas. China has some 20 million hectares of freshwater area, of which one-third can be used for fish culture. And much of it is--China is said to account for more than third of the world's aquaculture output, with production of some 1 million tons annually.

From an efficiency standpoint, small ponds near villages and cultivated land are the best suited water source for raising fish. A ready supply of labor is available, the fish can be fed on local wastes, and processing and transport facilities are not needed because the fish are consumed locally. Large lakes and reservoirs tend to be located in rural areas some distance from markets. Also, larger reservoirs are designed and managed primarily for flood control, irrigation, or power generation. This can

25X1

25X1

25X1

25X1

SECRET		

cause damage to the fishery when the water level drops before the beginning of the rains in late spring or during summer dry spells.

25X1

Freshwater fisheries have been neglected somewhat in recent years and production has fallen below the record high set some 20 years ago. Since that time the proportion of freshwater fish has dropped from 40 to 23 percent of total aquatic production. The deadline has been hastened by reclaiming large areas of lakes and rivers for cultivation. This reclamation, coupled with increasing irrigation and pollution, has seriously limited and altered the aquatic environment. A further problem has been that dams and locks built on rivers and streams have prevented various types of fish from returning to their spawning grounds.

25X1

Chinese Plans

Although Chinese plans are still in a state of flux, there are a number of indications that the new regime recognizes the need to push forward on water control projects. Development of water resources is closely associated with what are perhaps the three top-priority sectors in present Chinese planning--agriculure, energy, and transportation. Following are some of the major steps to improve utilization of water resources that have been discussed in the Chinese press:

- -- Formulation of plans for a massive program of dam construction, primarily aimed at increasing electric power supplies to help overcome serious power shortages but also for agricultural use and navigation improvements.
- -- The need to correct past deficiencies in dam construction in relation to fishery output; that is, to provide means for spawning fish to bypass dams, to slow down the conversion of ponds and lakes to cropland, and to protect streams from pollution and contamination.
- -- Various measures to improve the efficiency of water use in agriculture and serious consideration of gigantic schemes to divert water from the Chang Jiang to the Huang He basin.

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8 SECRET 25X1 -- A broad program to improve water transport facilities. 25X1 The Push for Hydroelectric Power The growth of China's electric power industry has not kept up with the rapidly expanding power requirements of industry and agriculture. Beijing claims that power shortages have kept industrial production 20 to 30 percent below capacity. To correct this situation a larger proportion of investment is to go to electric power development during the current three-year period of economic adjustment (1979-81). 25X1 Recent shifts in China's development plans do not seem to have changed the basic features of the electric power development program beyond increasing the pace at which it will be implemented. The now defunct Draft Ten-Year Plan (1976-85) remains the best guide for this program. Under the plan, generating capacity was to be increased in every way possible. Both thermal and hydropower plants were to be built, the choice being determined by the availability of local primary energy resources. Large, medium, and small plants were to be added, though some 30 large power stations were to form what the Chinese called the backbone of the emerging electric power system. 25X1 Almost half of the capacity embodied in 10 large 25X1

hydropower plants now known to be under construction is concentrated in three projects: the 2,700-MW Gezhouba project, soon to be China's biggest power plant and the first dam on the Chang Jiang; the 1,600-MW Longyangxia project on the Huang He; and the 900-MW Baishan hydrostation in Jilin Province. The total capacity of the 10 large hydroelectric plants now under construction is about 8,700 MW (see table 4).

For the past year the Chinese have been seriously considering construction of at least 12 other very large hydroelectric stations; seven of which would dwarf Gezhouba (see table 5). This construction program seems to be based on plans for the systematic development of the Huang He and Chang Jiang. Plans call for adding three dams of about 1,500 MW each to the Huang He, which already has several large plants. Five hydrostations-all upstream from Gezhouba--are planned for the Chang Jiang, ranging in size from 3,000 MW to 25,000 MW.

25X1

G-14

SECRET

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

Table 4

		China: Large Hyd	roelectric Plants Under Construction
Name	Province	Capacity (MW)	Notes
Ankang	Shaanxi	800 4 units	On Han Shui. Construction began in 1978; first generation is expected in 1982.
Baishan	Jilin	900 3 x 300 MW	On Songhua Jiang. Construction started in 1975.
Dahua	Guanxi Zhuang	400 MW 4 x 100 MW (first phase)	On the Hongshui He. It will supply 2.1 billion kWh of power annually. Construction began in 1975, and the first unit is scheduled for operation in 1980.
Gezhouba	Hubei	2,700 21 units	The first dam on the Chang Jiang. It will have two power plants and will be the largest hydropower project in China, producing 13.8 billion kWh per year upon completion. Construction started in 1970; but technical snags, including the unexpected problem of silting, caused suspension of work from November 1972 to October 1974. The project is closely related to future development of the Sanxia (Three Gorges) and the Chang Jiang water diversion schemes.
Lubukou	Yunnan	500	The first units reportedly will be operating by 1982.
Longyangx1a	Qinghai	1,600	On Huang He. The 172-meter dam will be China's highest. Upon completion it will generate as much as 6 billion kWh per year. Longyang reservoir will regulate flow of water to four existing power stations, enabling them to produce another 500 million kWh per year. First generation is scheduled for 1983; construction started in 1978.
Tahua	Yunnan	500	A low-head project near Kun'ming. It is scheduled for completion in 1982.

25X1

25X1

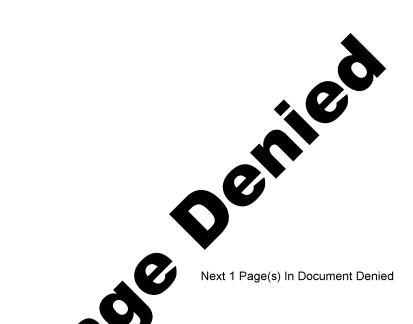
Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

Table 4 (Continued)

Name	Province	Capacity (MW)	Notes
Tongchiang	Hunan	250 to 350	Construction was started in 1958 but the project was abandoned until 1978, when construction resumed.
Wanan	Jiangxi	400	Construction was started in 1978 for a planned completion date of 1985.
Wujiangdu	Guizhou	630 2 x 210 MW	On Wujiang Shui. Construction, which started in 1970, is reportedly speeding up, and the first power generation is expected shortly. When complete, it will generate 3.34 billion kWh per year. It is pilot project in the utilization of water resources in limestone areas, known for their complex geology.

25X1

25X1



25X1

SECRET

Outstanding on this list is the 25,000-MW Sanxia project incorporating what would be the world's largest turbogenerator units (1,000 MW each) in the world's biggest dam. Sanxia is a multipurpose project designed to control floods, irrigate farmland, improve navigation, and generate electricity. Construction time to first generation is estimated at eight to 10 years, on top of several years for engineering work. Chinese and Japanese officials have estimated Sanxia's cost at \$7.8 billion to \$12.5 billion. Cost of transmission facilities will probably add several billion dollars to the price tag. Moreover, in view of what other large hydroelectric plants are costing, these estimates appear low.

25X1

A smaller but also very important project, because of its water conservancy features, is the Longmen dam on the Huang He. This dam is to be located near the bend of the Huang He before it enters the North China Plain. Project cost has been estimated at more than \$1 billion, and 8 billion cubic meters of water is to be provided annually for irrigation. The huge amount of sediment, however, is expected to reduce the reservoir capacity rapidly, and, unless various upstream projects to reduce the silt load are completed, there may be danger of its becoming another Sanmen (see appendix A for further details on the Sanxia and Longmen projects).

25X1

Agricultural Needs and Solutions

The potential for enlargement of the irrigated area in the southern and central rice-growing regions is marginal. Future improvements will be concentrated in the North China Plain and hilly regions. The main aim of state investment in water conservation and farm improvement projects, which has steadily increased to its highest levels, is to expand the area of high- and stable-yield farmland (land capable of resisting drought and flood). The lack of water in North China is a major limiting factor on agricultural growth, and the growth in the use of tube wells may be restricted by a drop in underground water levels. Increased use of irrigation on fields lacking adequate drainage has increased problems with salinization of the soil.

25X1

SECRET	

During a recent conference called by the Ministry of Water Conservancy, the main tasks for the readjustment period were outlined as better management and expansion of existing works, improved maintenance of existing reservoirs, construction of small reservoirs, the planning of larger scale projects, and surveys of water above and below ground in major river basins. Adoption of more efficient methods of irrigation, such as sprinkler, trickle, and seepage, will save water and labor, free land previously devoted to canals, and expand irrigation in upland areas. These methods of irrigation could prove to be as important to increasing grain production as the tube wells in North China. Longer term projects are aimed at increasing the utilization of the Yellow River, which will require either removal of silt or measures to prevent erosion in the loess soil areas, and possibly diverting water from the Chang Jiang to the waterdeficient North China Plain.

The Chang Jiang Water Diversion Projects

The Chinese have long considered schemes to divert water from the Chang Jiang in central China to the more arid regions north of the Huang He. These schemes surfaced again in the past year and several articles have appeared in the press discussing the pros and cons of various alternatives. Recently, there have been indications that planning and implementation will again be delayed because of their high cost and engineering complexity.

The three alternative routes that have been mentioned most frequently are in the western, middle, and eastern reaches of the rivers (see map following page G-7). Plans for the western route, requiring extensive canals and tunnels, were the first to be dropped. The middle route would draw water from the Chiang Jiang Gorge region above Yichang and go north through Danjiangkou Reservoir and a series of canals and reservoirs to the Huang He. This system would rely on gravity flow provided by a large dam in the Chang Jiang Gorge region. At present, only the portion of the route north from Danjiangkou Reservoir is being considered. This would avoid the large dam and rough terrain near the Chang Jiang but still provide 10 billion cubic meters of water annually—enough to irrigate 4.6 million hectares.

25X1

25X1

25X1

25X1

SECRET	

In the proposed eastern route, 30 billion cubic meters would be pumped from the Chang Jiang into the Grand Canal. This plan is aimed at developing the canal into a large transport artery; but this will require a sizable pumping effort. To lift the planned 1,000 cubic meters of water per second, 30 pumping stations at 15 levels would be required in addition to the large electric power requirement. By comparison, China's largest pumping station today, located at Jiangdu, has a capacity of only 460 cubic meters per second and required 14 years to construct.

The water must be lifted on the eastern route to cross the Huang He, some 40 meters higher than the Chang Jiang. Because of the excessive silt load, the bed of the Huang He is above the surrounding area and would be the pinnacle of the eastern route as well as the greatest obstacle for both routes. Either route must go over or under the Huang He, presenting technical problems that strain the present capabilities of the Chinese. If they do succeed in suppying irrigation water to areas north of the Huang He, a good distribution and drainage system must be developed to prevent soluble salt buildup in the fields.

Possible Development in Inland Water Transport

The development of inland river navigation is of extreme importance for China as a means of improving its land transport systems for handling large shipments of bulk freight such as oil, coal, and grain. After recent visits to the United States, the Chinese now give the impression that they consider their major river systems to be in a condition similar to that of the Mississippi and Missouri Rivers 50 years ago. A comprehensive plan for the development of inland waterborne transport is in the initial stage only. The Planning Bureau of the China's Ministry of Communications is concentrating on gathering information on which to formulate concrete plans.

The most grandiose scheme, for which no time frame has been announced, is the plan to create a national waterway transport network by connecting the Xi Jiang, Chang Jiang, Huai He, Huang He, and the Hai He with canals-one of which is the Grand Canal. The completion

G-21

SECRET

25X1

25X1

25X1

SECRET				

of the Chang Jiang water diversion project is a major ingredient in this scheme. For without an additional source of water, the volume of water flow in North China cannot sustain a large-scale water transport system.

The Chang Jiang system will probably continue to receive the major portion of inland water transport expenditures as it will continue to lead the nation in volume of waterborne freight for the foreseeable future. Most likely, the Chinese will direct their efforts toward increasing the numbers of barges and tugs. An increasing number of oil barges are required to carry crude oil from Nanjing, the southern terminus of the Shandong-Luning oil pipeline, to points along the Chang Jiang where a number of special petroleum wharves have been built to satisfy the region's growing demand for petroleum. The demands for coal barges and specially equipped coal wharves will also increase as the demand for industrial coal increases along the river.

Requirements for Outside Help

The Chinese have approached a number of countries, including the United States, for help in their water control efforts. These contacts have included everything from sending study groups to various countries to inviting foreigners to carry out hydrological surveys for major projects. Thus far, no major projects have been negotiated, although the Chinese have intimated the possibility of gigantic deals, especially with Japan.

Our feeling is that the Chinese have not yet decided on a definite program for multipurpose river control, and we are uncertain of the extent to which the Chinese will be cutting back on grandiose schemes in the light of their present economic retrenchment. Those projects under way appear to be related to plans that were formulated many years ago and, in some cases, with questionable merit. For example, in the past the Huang He Development Scheme was implemented in a wasteful, haphazard manner and, judging from the data on Longmen and other current projects, the objectives of the overall program still are not taken into consideration in development of individual projects. Following are some indications of questionable planning and development:

G-22

25X1

25X1

25X1

25X1

SECRET			

-- Some investment appears to have been wasteful; for example, the Chinese have said that Danjiangkou power plant--the second largest in the country--will have to cut production way back if the Chang Jiang water diversion scheme is implemented.

25X1

-- It is believed that waters from the Gezhouba project, which is to make up for the lost electric supply at Danjiangkou, will flood the site of the Sanxia project causing additional costs and difficulties once construction is initiated at Sanxia.

25X1

-- The tremendous shortfall in output at Danjiangkou and the backup of saltwater a considerable distance up the Chang Jiang during the drought of 1978 may cause some consternation about the effect of diverting Chang Jiang water to the north.

25X1

In any case, we feel China's greatest need at present probably is in planning multipurpose projects so as to achieve the greatest benefit at least cost. Western countries probably could provide considerable help in this planning process as well as in managing the construction of large projects and in providing modern equipment and technology for dam construction and electric power production and transmission.

25X1

Dams and Hydroelectric Facilities

Many of the water control projects being considered require high dams, for which China lacks advanced technology

The Chinese have been looking abroad for help with these projects. Thus far, engineering teams from Norway, Sweden, France, Japan, and the United States have visited project sites in China (see appendix B).

25X1

25X1

Preliminary negotiations for foreign participation on a number of projects began last fall. In looking abroad, Beijing has been motivated by a desire to obtain the most advanced hydroelectric engineering and equipment, to speed up design work and possibly construction by importing equipment and technical and management expertise, and to obtain foreign financing for the projects.

25X1

SECRET			

As the Chinese readjust their economy all of these projects will be scrutinized and compared with alternative ways of generating electricity and getting it to areas where it is needed. Financing, availability of construction materials, foreign exchange costs, and the timing of the projects and of required infrastructure will all have to be considered. In addition, the priority accorded to producing energy for export—in the form of oil and coal—will influence the rate at which hydro resources are developed.

25X1

The Chinese have demonstrated a great desire to move ahead rapidly on all energy fronts. They are aware of many of their weaknesses in hydropower development capabilities and are now willing to accept help from Japan and the West. They believe that they can proceed more efficiently and quickly if they have access to the latest technology and that it will help them to improve their domestic capabilities in hydropower construction.

25X1

At present, China seems most anxious to obtain foreign help with the preconstruction stages of very large hydropower projects, including: (a) geological and hydrological surveying, (b) hydropower plant designing and engineering, (c) power equipment designing and engineering, and (d) project planning and management.

25X1

The Chinese also seem to want the latest heavy construction technology in order to speed up plant and dam construction. Such equipment would, for the most part, have to be imported. The Chinese may want to use this advanced technology in conjunction with their traditional labor intensive construction practices.

25X1

The Chinese also will need high-capacity power equipment. Their largest domestically produced turbogenerator units are 300 MW. Much larger units--such as the 1,000-MW units proposed for Sanxia--may have to be imported.

25X1

To deliver all the power produced by the proposed large hydroplants and to generate power most economically, China must beef up its transmission system. It will need transmission lines of 500 kilovolts or higher as well as denser regional grids to tie into a national grid eventually. To achieve this, the Chinese will require technology, equipment, and personnel trained to design, install, and maintain a high-capacity transmission system.

SECRET			

In addition, the Chinese can probably benefit from acquiring modern power system planning methodologies if they are not already using them. Good systems planning modified to fit Chinese goals and conditions would help Beijing to maximize the payoff in investments in China's power system; to balance investment in industrial production; and to develop a rational long-range strategy for power system development.

25X1

Finally, the hydropower projects the Chinese are discussing could easily cost a total of upwards of \$100 billion, and, if they are to move forward quickly, the Chinese will need some type of foreign financing.

25X1

Agriculture

Besides the large multipurpose projects, the Chinese could benefit from the use of Western irrigation technology that would reduce water consumption, enable application in a more timely manner, free land previously devoted to canals, save farm labor, and allow an expansion of the irrigated acreage in upland areas. The Chinese are beginning to use these technologies—sprinkler, trickle, and seepage—and have imported some sprinkler equipment from the United States. It appears that they have also begun to manufacture mechanized sprinkler systems. The advances in these areas may be slowed down, however, because over the next few years the Chinese power system may have difficulty meeting China's large electric power requirements.

25X1

Transportation

China's inland waterway development plans could represent some commercial opportunity for US firms; the Chinese remain impressed with the development of waterborne transport on the Mississippi and Missouri Rivers. Then too, the Chinese usually attempt to obtain the latest in technology—an area in which they feel the United States is generally still the world leader.

25X1

China needs a complete range of navigational equipment, including lights, electronics and communications gear, and 5- and 10-ton towboats or pusher tugs. They

Approved For Rei	ease 2007/12/06 : CIA-R	DP83R00184R0	02600590002-8
,	SECRET		

are not interested in self-propelled barges--which are uneconomical relative to plain barges handled by towboats or pusher tugs. The Chinese would probably be more interested in a transaction that enabled them to build their own equipment rather than outright purchases of large amounts of equipment. US assistance in technical and especially managerial areas--one of China's biggest restraints on productivity--would probably be most welcome to the Chinese.

SECRET

25X1

Appendix A*

Detailed Description of the Sanxia and Longmen Projects

25**X**1

Sanxia (Three Gorges)

Location: Near Yichang in Hubei Province 1,800 kilometers from the mouth of the Chang Jiang.

Planned Capacity: 25,000 to 30,000 megawatts; can produce 120 billion kilowatt-hours per year.

Normal Operating Head: 134 meters.

Type: Concrete gravity.

Multiple Purpose Project: Flood control, power, navigation.

Damsite Data

- -- Mean average water discharge: 14,300 cubic meters per second, but very large fluctuation.
- -- Peak flow: 71,100 cubic meters per second in 1896.
- -- Minimum flow: 2,770 cubic meters per second in 1937.
- -- Sediment transportation: 530,000,000 tons per year.
- -- Sediment concentration: 1 kilogram per cubic meter.
- -- Impermeable bedrock: crystaline of pre-Cambrian period. Compressive strength of 1,000 kilograms per square centimeter. Modulus of elasticity: 1 million kilograms per square centimeter.
- -- Damsite is located in the middle of the Huanging anticline. Good damsite. No deep faults.

25X1

SECRET	

- -- Seismic intensity, must design to be safe at 8 on Chinese acceleration scale. Equivalent to 0.1g for design.
- -- A dozen sites have been surveyed.

Power Generation Data

- -- About 1,000 kilometers by transmission to the load center of Shanghai.
- -- Total estimated cost of multiple purpose project: about \$7.8 billion, not including relocation of people.
- -- Units of 1,000 megawatts each: 25 to 30.
- -- Generating station will be built with four powerhouses of three types: the first with water passages through the dam; the second using diversion tunnels for penstocks; and the third underground.
- -- Turbine runners will be 10 meters in diameter. China now has turbines of 11.3 meters in a low-head project.
- -- Turbine discharge: 1,000 cubic meters per second.
- -- Will design for a head of 110 meters to get 1,000 megawatts per turbine.
- -- The diversion section will service two powerhouses. The diversion tunnels will pass up to 86,000 cubic meters per second. There will be five tunnels.
- -- Turbines to be rated for 80 meters head minimum, 130 meters maximum.

Flood Control Data

- -- Dam will control 1 million square kilometers drainage area.
- -- Dam will control 70 percent of flow of the Chang Jiang.

G-28

SECRET

- -- Records indicate a major flood every 10 years or so, flooding 100,000 square kilometers of agricultural lands in the middle and lower reaches of the river. In 1931, a flood covered more than 12,800 square miles, inundating Hangzhou, a city of one million. Buildings were covered to the second floor. Thirty-two million people affected, 150,000 people killed.
- -- Together with channel control, there is a requirement for 38 billion cubic meters of flood control space on the main stream and tributaries to control flooding.

Navigation Data

- -- Dam will back water to Chongqing, deepening the navigation channel.
- -- Will reduce velocity, now 5 to 6 meters per second, and eliminate shoals and rapids.
- -- Reservoir 700 kilometers long. River now drops 150 meters in that distance. Reservoir 1,800 square kilometers normal water surface area.
- -- Project will regulate the flow of river to 10,000 cubic meters per second.
- -- At site No. 3, right bank will have a series of permanent ship locks. Total lift, 134 meters. Six locks. Each lock 280 meters long by 34 meters wide. The entire lock area is 3,000 meters long.
- -- Locks of similar size are being built at the regulating dam at Gezhouba.
- -- Will build a temporary ship lifting channel during construction.
- -- Cargo to be moved by river: basically natural resources including timber and phosphorus.

Diversion of Water Possibilities

-- Reservoir will be 100 meters higher than the North China Plain. Will divert water north to the Huang He (Yellow River) to solve water shortage in the North.

Longmen (Dragon Gate)

<u>Location</u>: On boundary line between Shanxi and Shaanxi provinces, 270 kilometers from Sanmen Gorge project.

Multiple-Purpose Project: Providing irrigation, sedimentation control, flood control, ice flow control, and electric power.

Hydrologic Data

- -- 56 years of data available.
- -- Drainage area: 500,000 square kilometers.
- -- Inflow: 32 billion cubic meters per year.
- -- Average discharge: 1,000 cubic meters per second.
- -- Maximum peak flow: 21,000 cubic meters per second.
- -- Record discharge in 1843: 30,000 cubic meters per second.
- -- 10,000-year flood: 55,000 cubic meters per second.
- -- Average sediment transportation: 1.1 billion metric tons per year; 90 percent in July, August, and September.
- -- Sediment concentration: 37 kilograms per cubic meter.

Reservoir

- -- Length: 207 kilometers.
- -- Reservoir area soils are loatial. Lack water to reforest or even grow grass to hold soil and prevent soil movement. Are building ter-ranced fields. Forestation and grass have helped, but very difficult to sustain.
- -- Storage capacity 12.5 billion cubic meters. Sediment trapped by dam will reduce storage ultimately to 3.8 billion cubic meters.
- -- Inundated area will not affect many people; only 8,000 will be removed, only 18,000 hectares of agricultural land will be flooded.

Damsite and Dam

- -- Have compared two damsites:

 - (a) She T'ou Lin(b) Kan Tse P'o Selected She T'ou Lin as the better. other will flood many areas and geological conditions are not as good.

Data on She T'ou Lin Site

- -- Located at gorge 300 to 500 meters wide. Gradient 1:1000 U-shaped Gorge. Banks of river 600 to 700 meters.
- -- River below gorge widens to 5,000 meters in some places. Land by gorge is 150 meters higher. River flows east then south near site.
- -- Design for earthquake intensity: 7 degrees.
- -- Will be an earth and rock-filled dam, impervious core, local clays.
- -- Damsite permian rock (sandstone) 800 meters thick. Inclination 3 to 5 degrees. Interlayers of weak rock.
- -- Overburden 17 meters. Fine sand, then gravel.

G-31

- -- Plant will operate at 193 meters head. Minimum operating head 141 meters.
- -- Dam height: 206 meters.
- -- Dam crest at 590 meters' elevation above sea level. Elevation of maximum water surface: 589 meters. Elevation of minimum water surface: 540 meters.
- -- Length of crest: 1,330 meters.
- -- Outlet, when operating at 206 meters head, will discharge 8,000 cubic meters per second.
- -- 14 tunnels 12 meters in diameter to discharge water. Tunnels 670 meters long; 5 sluices; 4,600 cubic meters per second capacity total 5 penstocks 10 meters diameter, 230 meters long.
- -- Spillways 50 meters wide. 5 sluices gates 10 meters wide each, 15 meters high, 600 meters long. Discharge 4,600 cubic meters per second for entire spillway.
- -- Two tunnels for irrigation 200 cubic meters per second. Capacity, 10 meters diameter.
- -- Excavation: 14 million cubic meters of rock and earth.
- -- Dam body fill: 45 million cubic meters of rock and earth, 1 million cubic meters of concrete.

Electric Power and Powerhouse

- -- Installed capacity: 1,500 megawatts.
- -- Five units rated at 300 megawatts each. Type of turbine generator not set.
- -- Produce 6 billion kilowatthours per year.
- -- Operate 3,960 hours per year (not quite half time).

SECRET	
	1

- -- Maximum power head: 193 meters.
- -- Minimum power head: 141 meters.
- -- Powerhouse or right bank. Will have 5 tunnels each 10 meters in diameter, 730 meters long.

<u>Irrigation</u>

- -- Rainfall only 500 millimeters per year. Often have spring and summer drought.
- -- Agricultural yield very low, 1.5 tons of grain per hectare.
- -- Will divert 8 billion cubic meters of water to irrigate 1.7 million hectares of land each year.
- -- Two diversion tunnels for irrigation. One tunnel will be 16 kilometers long into Shaanxi province. The other 23 kilometers long into Shanxi province. Each tunnel will carry 200 cubic meters per second. Diameter 10 meters.

G-33

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8	
SECRET	
Appendix B	
China: Status of Foreign Participation	
In Hydropower Development	
• • • • • • • • • • • • • • • • • • •	
Japan	
Since the fall of 1978, Japan and China have been discussing the joint construction of four major hydro-electric stationsSanxia (25,000 MW), Xianjiaba (4,000 MW), Longmen (1,500 MW), and Daliushu (1,500 MW). According to press reports, the total cost of the projects will be \$32.5 billion.	
Japanese Government and industry experts visited the four proposed plant sites during the winter of 1979 to assess the opportunity to provide technical services, construction materials and equipment, and training of Chinese personnel.	
The Japanese are attempting to get the United States	
to work with them on the Chinese projects in the areas	
of technical services or financing.	
Japanese know that China may want other countries, such	
as the United States, France, Sweden, and Canada, to	
participate in the Sanxia project.	
Tonon older han have the second of the secon	
Japan also has been providing China with technical assistance on making dams earthquake resistant.	

25**X**1

25X1

25X1

25X1 25X1

25**X**1

25X1 25X1

25**X**1

G-34

SECRET
United Kingdom
The United Kingdom and China signed an economic cooperation agreement last winter that held out the prospect that British firms might get contracts for hydroelectric plants. The status of negotiations, if any, is unknown.
United States
Chinese officials asked last fall if the United States would consider building the Sanxia dam on a turn-
key basis or provide engineering assistance for a project on the Huang He (Yellow River)where the high volume
of sediment is a problem. Japan, too, has tried to in-
terest the United States in working with it in China

G-35

25X1

25X1

25<mark>X</mark>1

25X1

25X1

25X1

25X1

25X1

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

I

SECRET					

EXPANSION AND MODERNIZATION OF CHINA'S CIVIL AIR SERVICES

Executive Summary

Beijing continues to expand domestic and international civil air service as part of an overall program that began in the early 1970s to modernize the economy. Initially, the acquisition of foreign aircraft enabled the national airline--Civil Aviation Administration of China (CAAC) -- to expand the sparse domestic network and to add a few international routes. In the past few years, the pace of CAAC's expansion has accelerated along with the increase in political and economic openness to foreign countries. Of late, civil airport facilities and associated services have been expanding to meet a growing demand for a more efficient air serv-With air service to North America in mind, China recently ordered three Boeing 747SPs. The inaugural date for scheduled service between the United States and China depends on the success of the forthcoming bilateral air talks.

The Early Years

Civil aviation in China began with flights between Shanghai and Hankou in 1929. A thin network was developed during the next decade, including a few short international links. Operations were brought to a standstill by World War II and China's civil war. An infusion of Soviet aid in the 1950s allowed the new Communist government to begin restoring service. Two airlines were established, the Soviet-Chinese Joint Stock Company for Aviation (SKOGA) and the Chinese-owned China People's Aviation Company. The two companies were integrated in 1953 and within a year were merged to form CAAC, a single state airline.

This memorandum was prepared by the China Division of the Office of Economic Research, National Foreign Assessment Center, in response to a request from the National Security Council. Ouestions and comments may be addressed to

25**X**1

25X1

25X1

H-1 SECRET

SECRET	

Before the 1970s, the mainland was served by a skeletal domestic air network and was almost completely isolated from international aviation. It was not until China had solved some of its pressing domestic problems of the 1960s and had begun to open up to the West that it turned its attention to modernizing the air service.

25X1

The Push for Modernization

Beijing launched a major aviation program in the early 1970s. Modernization and expansion plans were highlighted by the acquisition of modern jet passenger aircraft and the aggressive pursuit of bilateral civil air agreements--mostly with non-Communist countries. As this policy gained momentum, China joined the International Civil Aviation Organization (ICAO) in 1974.

25X1

Since the modernization program began in 1970, China has spent some \$1.1 billion on aircraft, spare parts, and equipment. The first new jets were six Sovietbuilt long-range IL-62s. The Chinese were quick to criticize this aircraft and immediately began looking for new Western aircraft. Aside from genuine dissatisfaction with the IL-62, and possible political considerations, we believe the shift to Western suppliers stemmed from a desire to broaden sources of equipment and to enhance the prestige of CAAC with firstline Western equipment.

25X1

The initial purchase of new Western aircraft came in late 1971, when China bought six medium-range British Trident 2Es. Subsequent contracts brought total Trident 2E and 3B orders to 35 aircraft, of which about 20 are currently assigned to the civil fleet. The next acquisition of Western aircraft came in mid-1972 when CAAC bought 10 long-range Boeing 707s.

25X1

The 747 Buy

In late 1978, Beijing announced that three Boeing 747SPs were on order--the first wide-body aircraft ordered for the CAAC fleet. We believe China's decision to acquire the 747s was undertaken primarily with a view toward CAAC service to North America, most notably a scheduled air link between Beijing and the United States. Although such a service could be inaugurated using CAAC's current inventory of 707s, the Chinese would prefer using

H-2

 S	EC	RE:	<u>ר</u>	

the newer and more prestigious 747s. Moreover, the delivery schedule of 747s--the first of which is to be turned over to China in February 1980--would dovetail with the likely progression in formal US-Chinese bilateral air talks.

The Chinese penchant for multiple suppliers and earlier reliance on the USSR have given CAAC one of the world's most varied civil air fleets, as shown in table 1.

The acquisition of Western aircraft has led to some problems for Beijing--specifically underutilization of the current fleet. The need to absorb quantities of new technology created additional problems for an air service that lags far behind Western standards. In any event, the current low level of services allows time for training of Chinese pilots and maintenance personnel. This training can be enhanced by support from Western firms.

Domestic Service

China continues to expand its domestic air service, which has already shown significant growth in the past few years. By mid-1979, over 130 domestic routes covering some 149,000 kilometers connected over 80 cities—up 69, 86, and 14 percent respectively since 1973. In the past six months, at least 2 new cities and a dozen new routes have been added. By midyear, CAAC operated more than 550 scheduled flights a week, including many new flights established to meet the travel needs of foreign visitors. Passenger traffic on CAAC aircraft during the first half of 1979 increased by 40 percent over the same period of last year. The total volume of freight handled during the first six months of this year also increased 40 percent over the like period of 1978. The volume of airfreight turnover in 1978 reached 97 million ton-kilometers, a 28-percent increase over 1977.

The recent doubling of foreign visitors--mostly delegations, businessmen, and some tourists--has given China the incentive to improve and expand air service. In the process, increased foreign earnings are enabling CAAC to turn past operational deficits around. In 1978, China's total earnings from foreign visitors more than

H-3

SECRET

25X1

25X1

25X1

25**X**1

SECRET

Table 1

China: Inventory of Jet and Turboprop Aircraft* July 1979

Country of Cargo Range Manufacture Number Engines Passengers (kg) (km) Jets <u>37</u> IL-62 (Classic) 6 USSR 122-186 11,900 9,200 Trident UK 21 Model 1E 3 (1)115-139 3,400 Model 2E (18)3 132-149 4,000-4,700 Model 3B (2) 3 158-179 3,000-3,100 Boeing 707 US 10 Model 320B (4)4 189 12,800 9,700-10,500 Model 320C (6) 4 43,900 9,700-10,500 On Order Boeing 747SP US 3-5 4 321 10,841 Turboprops 48 AN-24 30 **USSR** 2 50 3,700 2,100 IL-18 USSR 11 4 89 6,800 6,400 AN-12 USSR 2 90 4,300-3,600-9,500 7,800 Viscount 810 UK 5 4 52 6,600 2,600

25X1

25X1

25X1

H-4 SECRET

^{*} In addition, CAAC has 335 piston aircraft, about three-fourths of which are single-engine AN-2s.

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

SECRET

25X1

tripled over 1977 and are likely to increase further as tourism is encouraged. As more cities are opened to tourists, more flights will have to be added to meet the additional demands on the system because most of the present flights already are fully booked.

25X1

CAAC could meet immediate demands for additional service if it fully utilized its present fleet. rently, Chinese aircraft fly about two hours a day, whereas most industrial nations average about 10 hours a day per plane. Past management practices, as well as the small number of qualified civil aircraft pilots, probably account for the underutilization rate rather than a poor maintenance program. Although the Chinese pool of trained manpower is small, current capabilities to perform routine maintenance could support additional flight time. CAAC's past safety record attests to this proficiency; only one fatal civilian crash, an AN-24 in 1976, mars an accident-free record in recent years. Likewise, scheduled overhauls on jet-powered aircraft present no problem as they are generally contracted out to foreign-based firms. For instance, scheduled overhauls for their Boeing 707 aircraft have been done under contract by a Hong Kong-based firm since 1973. Maintenance on the older piston-engine aircraft and turboproppowered aircraft is done by the Chinese in China.

25X1

In the future, China will probably seek additional aircraft to accommodate the expected increase in number of passengers and airfreight tonnage. The Chinese will likely be interested in a cargo-convertible aircraft also capable of carrying a passenger-cargo mix. For this they will probably seek a Western built aircraft to garner prestige and provide a plane more familiar to travelers from non-Communist countries.

25X1

International Services

Beijing began laying the groundwork for expanded international air services in the early 1970s when Chinese delegations traveled the world concluding bilateral air accords. China now has air agreements with some 40 countries, about two and one-half times the number in 1970 when most of the pacts were with other Communist countries.

25X1

H-5 SECRET

SECRET	

Until 1973, CAAC's international route network was confined to the USSR, North Korea, North Vietnam, and Burma. As new bilateral air accords were concluded, however, CAAC bagan reaching beyond this regional base and today has services stretching from Japan across South Asia to Eastern and Western Europe and to Africa (see the map and table 2). Currently CAAC serves nine foreign countries with a total of 10 weekly flights, with the most recent addition being flights to Ethiopia.

The number of foreign carriers serving the mainland has grown concurrently with the growth of CAAC's service. In the past five years the longstanding services by four air carriers—Aeroflot, North Korea's CAAK, Air France, and Pakistan's PIA—have been augmented by new routes flown by six additional airlines—Ethiopian Airlines, Iranair, Japan's JAL, Romania's Tarom, the Yugoslavian Airline JAT, and Swissair. Each of the carriers operate at least weekly flights which connect mainland China directly to Addis Ababa, Aden, Athens, Belgrade, Bombay, Bucharest, Geneva, Karachi, Moscow, Osaka, Paris, Rawalpindi, Pyongyang, Tehran, Tokyo, and Zurich. Services into these cities provide links to more than 100 other airlines.

Airports and Services

The expansion of civil airports in China has already begun. Beijing, the largest of the four international airports and the hub of the aviation network, enlarged one runway and added another in preparation for the expected rise in wide-body jet traffic. Shanghai and Guangzhou, the next largest airports primarily used by businessmen and tourists, already can handle large jets and are slated for additional expansion. During an earlier expansion program, Urumqi airport in Xinjiang was expanded and now is classified as an international airport capable of handling large jet aircraft.

Additional airports for handling large jets are scheduled for expansion, are under construction, or have been completed. Later this summer, the Chinese plan to start construction of a new airport at Wuhan capable of handling the Boeing 747SP. Tianjin and Hefei have been upgraded to serve as alternate airports for Beijing and Shanghai, respectively. Earlier this summer, a new jet airport was completed at Harbin after four years of construction efforts.

H-6

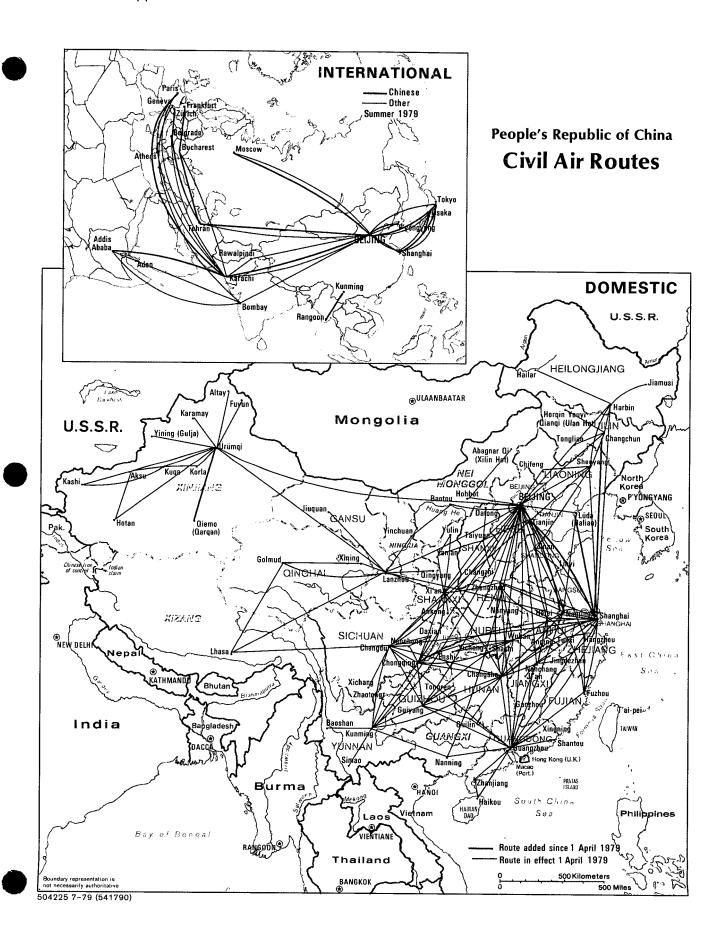
SECRET

25X<u>1</u>

25X1

25X1

25X1



Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

Table 2

China: Major Schoduled International Air Services, Summer 1979

	Flight Designation	lt fueracy	Flights per Week	Aircraft
Civil Aviation Administration of China	CA 903/904	Beijing-Pyongyang	1	Equipment varies
	CA 905/906	Kunming~Rangoon	1	Trident
	CA 907/908	Beijing-Moscow	1	Ilyushin 62
	CA 921/924	Beijing~Shanghai-Osaka-Tokyo	1	Boeing 707
	CA 923/927	Beijing-Shanghai-Tokyo	2	Boeing 707
	CA 925/926	Beijing-Tokyo	2	IL-62
	CA 931/932	Beijing-Karachi-Paris	i	Boeing 707
	CA 941/942	Beijing-Tehran-Bucharest-Frankfurt	1	Boeing 707
	CA 943/944	Beijing-Tehran-Belgrade-Zurich	1	Boeing 707
,	CA 961/962	Beijing-Karachi-Addis Ababa	1	Boeing 707
Foreign Carrier Service:				
Aeroflot (USSR)	SU 571/572	Moscow-Beijing	1	Ilyushin 62
Air France	AF 178/179	Paris-Athens-Karachi-Beijing-Tokyo	1	Boeing 707
	AF 180/181	Paris-Karachi-Beijing	1	Boeing 707
CAAK (North Korea)	JS 151/152	Pyongyang-Beijing	1	Antonov 24
Ethiopian Airlines (EAL)	ET 770/771	Beijing-Bombay-Aden-Addis Ababa	1	Bueing 707 or 7208
	ET 772/773	Beljing-Bombay-Addis Ababa	1	Boeing 707 or 720B
Iran Air	TR 800/801	Tehran-Beijing-Tokyo	2	Boeing 707
Japan Airlines (JAL)	.н. 781/782	Tokyo-Beijing	2	McDonnell Douglas DC-8s
	JL 783/784	Tokyo-Osaka-Beijing	1	McDonnell Douglas DC-8s
	Jt. 785/786	Tokyo-Shanghai-Beijing	1	
JAT (Yugoslavia)	JU 610/611	Belgrade-Karachi-Beijing	1	McDonnell Douglas DC-8s Boeing 707

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

Table 2 (Continued)

	Flight Designation	Itinerary	flights per Week	Aircraft
Pakistan International Airlines (PIA)	PK 750/751	Karachi-Beijing-Tokyo	1	Boeing 707
	PK 752/753	Karachi-Rawalpindi-Beijing-Tokyo	1	Boeing 707
Tarom (Romania)	RO 311/312	Bucharest-Karachi-Beijing	1	Ilyushin 62
Swinsair	SR 316/317	Zurich-Geneva-Athens-Bombay-Beijing	1	McDonnell Douglass DC-8s

SECRET					

Air traffic control facilities are adequate for the amount of daily traffic currently handled, less than 1 percent of the volume handled daily in the United States. However, modernized traffic control facilities will be required when the utilization rate of CAAC's current inventory increases and as more of the modern jets use China's airspace. At the more modern airports, China now has conventional avionics and flight control equipment capable of handling the British-built Tridents. Modern avionics equipment suitable for handling the expected increase in jet traffic within the airport's control zone is being installed at Beijing airport. Modern avionics equipment for airport traffic control also is planned for Shanghai and Guangdong. At the smaller airports, rudimentary en route navigational aids and airport control facilities now generally limit operations during periods of darkness and bad weather. At a later date, en route traffic control facilities will have to be modernized throughout China.

25X1

Passenger service capabilities also will require upgrading as the number of passengers increase. Airport lounges and restaurants recently were improved at Beijing and Guangzhou. Customs, baggage handling, and passenger taxes are other areas that need to be reassessed in order to speed up passenger flow. The airline reservation system also needs to be changed, if for no other reason than to improve CAAC's image. As a means of ensuring maximum bookings on CAAC flights, CAAC insists its ticket offices handle all reservations made in China for all international airlines.

25X1

The present inability to house the increasing number of tourists also is a prime concern of the Chinese. In an effort to alleviate the critical shortage of hotel rooms, the Chinese have approached a number of foreign companies for assistance with new hotel construction.

25X1

If China is to increase its air cargo volume rapidly, cargo-handling facilities and internal transport system linkages will require modernization. Even at the more modern airports, the lack of automated cargo-handling equipment, such as conveyor belts and forklifts, greatly reduces both the amount of cargo and the speed with which it can be moved. Rail service is another problem. Of the three major airports, only those at Beijing and Shanghai have railroad sidings; Guangzhou's does not.

25X1

H-9 SECRET

SE	CR	${ t ET}$	

Outlook for US-Chinese Air Talks

China has been reserved in early talks with the United States on any formal bilateral air agreement. While Beijing wants a civil air accord with the United States, there are at least two major considerations which any Chinese civil air delegation will have in mind when talking to US officials. The first will be a desire to maintain a comparability of service--carriers, frequency of flights, and types of equipment--between the two countries, and, secondly, the issue of existing US carrier service to Taiwan.

Chinese concern on the comparability-of-service issue stems from the fact that some 15 US airlines have or are in the process of requesting rights to mainland China. Beijing is concerned that the United States may press for more than one of its carriers to serve the mainland while Beijing has only one carrier for reciprocal service to the United States. Beijing's attitude on the Taiwan issue, as it specifically relates to US-Chinese bilateral talks, is difficult to assess.

On the Horizon

We expect China's expanding civil air operations to continue during the next few years. On schedule are air links between Beijing and Manila and between Beijing and Singapore, and a new service to China by West Germany's Lufthansa. In addition, Beijing will continue talks with several countries to inaugurate formal air links, chief of which will be with the United States. Although these negotiations will be time consuming, we believe they will result in a bilateral air accord.

China's intentions regarding additional acquisitions of modern civil transport aircraft are difficult to assess. Despite some recent pullback from purchases of Western high-technology equipment, Beijing surely will move forward with the purchases of the three 747s and is likely to pick up options on two additional 747s. As far as domestic passenger aircraft are concerned, CAAC's current inventories of medium- and long-range aircrafts, although adequate for the near-term expansion plans, will probably be bolstered by additional purchases of Western aircraft, particularly if Beijing decides to intensify expansion of CAAC operations in the 1980s. China is currently talking with two American companies concerning possible purchases of US-built aircraft for domestic service use.

H-10 SECRET

25X1

25X1

25X1

25X1

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8

SE	ECR	ET

25X1

25X1

25X1

25X1

BEIJING AND THE PROVINCES

Executive Summary

The Communist Chinese central leadership in Beijing exercises more control over the provinces than any previous Chinese government. The relationship between the national leadership and the 29 provinces, however, remains an adversary one, marked by mutual distrust and complicated by shifting political situations that embroil the provinces in the infighting at the national level.

Because of China's long history of independentminded provinces, Beijing is especially sensitive to signs that provincial leaders are promoting local interests at the expense of national goals, or are attempting to assert their independence from Beijing.

Beijing, moreover, is unable fully to monitor local compliance with its decisions, and remains uneasy about the willingness or ability of local officials to carry out national policies effectively.

Provincial leaders in turn often consider Beijing insensitive to local conditions, and less qualified than those on the scene to determine correct policies. They resent the concentration of political power in Beijing and their own relative lack of authority.

Beijing uses a mixture of harsh and conciliatory measures to maintain control. Politically disloyal provincial leaders are purged, incompetent officials are transferred, and a constant flow of new blood keeps provincial officials from developing strong local ties.

This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum was coordinated with the National Intelligence Officer for China. Questions and comments may be addressed

25X1

25X1

I-1

SECRET

The adversary relationship is diluted, however, by a number of factors contributing to Beijing's need for provincial cooperation:

- -- The provinces are the main source of new leadership at the national level. National leaders not only turn to their home provinces as bases of political power, but are eager to cultivate followers in the provinces with an eye toward promoting them to posts in the central government.
- -- Local leaders are eager to impress Beijing with their achievements, and Beijing rewards loyal and effective provincial leaders with promotions, and cites exemplary provinces for national admiration and emulation.
- -- Beijing, recognizing the vast potential of the provinces and the need for them to be in step with the center, is making an intense effort to enlist provincial support for China's economic modernization drive by giving provincial and local officials a greater say in economic planning and implementation.

Introduction

The relationship between the national leadership (the center) and the provinces in China historically has been one of mutual distrust and often open hostility. In the past, the provinces have been, or have acted as though they were, independent entities, with local "warlords" asserting their own power without reference to the nominal national leadership.

Under the Communist government in Beijing, China is perhaps now more unified than at any time in the past. Beijing has made giant strides in pulling the nation together culturally by establishing a national language and a comprehensive and effective communications/propaganda network. There is a widely shared belief in the legitimacy of the Communist Party as the ruling elite and a general acceptance of Beijing as the seat of the national government. Despite the political instability of the past and the almost certain strains that will face the nation during the next leadership succession, chances are virtually nil that China will again split into warring, independent provinces.

I-2

SECRET

25X1

25X1

25X1

SECRET

25X1

25X1

25X1

25X1

Beijing has nevertheless been repeatedly faced with the problem of assuring the responsiveness, if not the enthusiastic loyalty or acquiescence, of the provinces to decisions made at the center. The provinces for their part continue to view the national leadership as the one which selects the provincial leadership, sets economic goals, manipulates the political situation and generally attempts to manage the provinces without a genuine appreciation of local conditions or local attitudes. The relationship remains an adversary one, but conflict has been kept to manageable proportions by Beijing's efforts to establish its own control or to minimize sources of discord, and by the inability of the provinces to present a united front to Beijing. In addition, the frequent instability of the leadership situation in Beijing confuses possible provincial efforts to challenge Beijing's supremacy.

Why Worry About the Provinces?

Many of China's 29 provincial-level units (21 provinces excluding Taiwan, three municipalities with provincial-level status, and five autonomous regions heavily populated by ethnic minorities) are as large, in terms of area and/or population, as most countries in the world. The head of a province is confronted with an array of problems similar to those facing a head of state.

How a province performs, therefore, has important ramifications for the political life of individual provincial leaders. The provinces are the main source of new blood for the national leadership. Because of their size and the diversity of their problems, the provinces are an excellent training ground for a young official spotted by the leaders in Beijing as a potential colleague, and they provide ambitious provincial leaders with a readymade stage to display their talents and attract Beijing's attention.

Most national leaders maintain ties to their home province-either the province where they were born or where they have spent much of their working lives. These provinces then become bases of support as leaders cultivate their local followers and attempt to promote the most loyal to important positions, often in Beijing. The many people Vice Premier Deng Xiaoping has brought

I-3

SECRE	Γ

to the capital from his native Sichuan Province has contributed significantly to his ability to exert influence at the center. Premier Hua Guofeng, conversely, has been unable to bring many former colleagues from Hunan Province, where he worked for decades, into leading positions in Beijing. Hua's provincial record, however, gave him his first big boost: his work came to the attention of the late Mao Zedong largely because he was located in Mao's home province.

The composition of the party's leading organizations is now more heavily weighted toward the provinces than at any time in the past. The more than 300-person party Central Committee, in the past made up almost exclusively of national-level officials who lived and worked in Beijing, has twice as many provincial as national leaders. With most important issues now being discussed by the Central Committee or its 200-person working group rather than by the 26-member Politburo, as was the case in the past, provincial leaders spend more time in Beijing and are exerting more influence in decision-making.

Provincial representation on the ruling Politburo, however, remains small. This is a mark not only of Beijing's continuing wariness of ambitious provincial leaders, but also of the fierce competition among national leaders to get their provincial proteges into the upper echelons.

Sources of Tension

Greater provincial representation on the decision-making bodies in Beijing would do little to alleviate the longstanding tensions between the provinces and the center. These tensions are for the most part predictable, unavoidable, and insoluble, but they have not prevented Beijing from governing the nation as one unit. On occasion, however, they have erupted into serious problems that, in Beijing's view at least, threatened the cohesiveness of the nation and the continued existence of the government.

The most common irritant, from Beijing's point of view, is the persistence of "regionalism," a concern by officials on the spot with local interests that puts them at variance with the leadership in Beijing. Thus,

I-4 SECRET 25X1

25X1

25X1

25X1

SECRET

25X1

industrialized Shanghai has not given extensive or enthusiastic media coverage to the center's decision to shift investment priorities away from heavy industry and back to agriculture. This obviously cuts against Shanghai's interest in continued industrial growth to establish itself as China's industrial center. It also reduces the likelihood that Shanghai's leaders will have the opportunity to enhance their own political credentials by some show of outstanding industrial performance.

25X1

The other side of the "regionalism" coin is the perception of provincial leaders that Beijing is ignorant of or insensitive to local conditions. Provincial officials chafe under directives from Beijing that have no relevance to their areas or that are not tailored to take into account the special characteristics—such as poor soil and lack of adequate transportation or communications facilities—that pose obstacles to implementing the policies.

25X1

Even newly appointed provincial leaders quickly adopt the "we versus Beijing" provincial syndrome. Recently, two provincial leaders, who had long held national-level positions but were sent to the provinces as troubleshooters for Beijing, complained shortly after their arrival that real political power rests with the capital, that the authority of provincial leaders is too limited, that too much provincial revenue must be turned over to the center, and that Beijing is uncooperative and unresponsive to local requests. One of these officials is a close personal friend and political ally of Deng Xiaoping. If such a man, with friends at the center and with a perspective on problems from the national level, becomes frustrated by his inability as a province leader to do his job, officials who do not have national-level patrons or experience at the center undoubtedly are even more frustrated.

25X1

Beijing's inability effectively to monitor local compliance with its orders is another source of suspicion and ill will. Beijing has been lied to in the past by local officials eager to tell the capital what it wanted to hear and is therefore doubtful that many policies—especially those that are politically controversial or, as in the case of birth control, unpopular—are being properly carried out. The dispatch of inspec-

I-5

S	E	\overline{C}	R	\mathbf{E}	\underline{T}

tion teams to check up on local officials gives Beijing a better handle on what is happening throughout the country but probably offends a good many local officials. There is unquestionably much truth in the persistent complaints that local-level officials distort or ignore national policies and the belief of national leaders that lower level officials are lazy, inexperienced, or incompetent.

25X1

With its long history of warlordism, nothing disturbs Beijing more than real or imagined tendencies toward independence by a province or a group of provinces. A common accusation against a fallen provincial official is that he sought to establish his province as an "independent kingdom," immune from Beijing's instructions. The political effect would be to make the provincial leader an independent authority beyond Beijing's control and therefore a potential alternative to the leadership in the capital.

25X1

Gao Gang, head of the northeast, and Rao Shushi, boss of east China, were purged in 1954 for colluding to establish "independent kingdoms." Each man headed not a single province but a regional bureau composed of a group of provinces; after their purge, Beijing abolished regional bureaus, presumably because chiefs could become too powerful. Bureaus were later reestablished but dismantled again in 1966, and Beijing's longstanding fear of the potential power of the bureau chief undoubtedly has prevented yet another restoration.

25X1

Some provinces, such as Deng's own Sichuan, have a long history of independent-mindedness, and Beijing chooses carefully the leaders of such provinces. Likewise, those areas along China borders where there is a heavy concentration of ethnic minorities and where the people do not consider themselves Chinese nor their provinces to be part of China--including Xizang (Tibet), Xinjiang in the northwest, Inner Mongolia, and others-are of special concern and have been handled with special care. The military presence in these areas is great, not only because of a possible outside threat but as a means of controlling potential unrest within. These areas also have been inundated with large numbers of ethnic Chinese to dilute the influence of the minority groups, and special allowances, such as exemptions from the mandatory use of birth control measures, are made for minorities.

25X1

I-6

SECRET

25X1

The involvement of provinces in the partisan political rivalries at the center is another disruptive element in the central-provincial relationship. Most national leaders develop institutional as well as provincial power bases, but in times of conflict at the top, they turn to their home provinces for support. Mao's wife, in fact, had no institutional power base but effectively used Shanghai to launch attacks on prevailing policies at the center. Shanghai became a leading advocate of the views of Mao's wife and her three colleagues from Shanghai, the Gang of Four.

25X1

Problems in the provinces--raging disputes between contending factions, resistance to policies, failure to resolve important issues--are often linked directly to the machinations of a national leader from that province. A leader at the center who fears his political fortunes are slipping or who seeks to enhance his political strength, frequently interferes in the politics of his home province to ensure the political prosperity of personal supporters.

25X1

Because years of division within the leadership at the center have prevented Beijing from speaking with one voice, a patchwork quilt of provincial responses to initiatives by the center has been the rule rather than the exception. Some provincial leaders do not know which voice to listen to and play it safe by refusing to act at all. Others choose sides because of their own political inclinations or because they have been influenced by particular national leaders seeking support. This was clearly the case when Deng Xiaoping was under attack after his ouster early in 1976. Provincial response was sharply divided; Deng's solid network of supporters held firm, refusing to join the attacks, while those areas where the Gang of Four had made inroads were the most vituperative.

25X1

A marked change in the political situation at the top, such as the arrest of the Gang of Four, is followed by some change in the provincial leadership but does not necessarily work its way down to the grass roots. Some new provincial leaders apparently find themselves stymied by resistance from Gang of Four followers still in power at the lower levels. Mixed signals from Beijing as to how to proceed against them have prevented province chiefs from taking effective action to neutralize their

I-7

SECRET	

influence. The upshot is continued strain between the center and the provinces, ostensibly because the provinces are not implementing policies but actually because of Beijing's failure to put its own political house in order.

25X1

"Controlling" the Provinces

Beijing uses a carrot-and-stick approach to project its influence in the provinces. Get-tough measures can include a housecleaning of provincial officials suspected of disloyalty, the demotion of others whose misdeeds are less serious, and periodic transfers to prevent local attitudes and biases from taking hold. These actions are most effective when the national leadership itself is able to act in concert, not a common occurrence. Contention in Beijing often leads to neglect of problems in the provinces, in part because national leaders backing their favorite candidates cannot agree on new provincial bosses.

25X1

When problems in the provinces are seen as serious enough to transcend petty personal rivalries, Beijing can move swiftly and with vigor. The center dispatched national-level officials to Shanghai to assume leadership there in the wake of the Gang of Four's arrest, and they were backed by the temporary transfer of a trusted military leader to take command of the troops in the area.

25X1

Most of China's 11 regional military commanders, viewed with suspicion by Beijing since the abortive coup attempt in 1971 of then Defense Minister Lin Biao, were transferred in 1973 virtually without notice. Although contending national leaders may have forged alliances with individual military commanders, most central leaders apparently saw the pressing need to remove powerful commanders from their power bases to new areas with stricter limits on their activities.

25X1

Beijing has moved less quickly to reorganize all of the provinces since the fall of the Gang of Four. All but seven provinces have undergone some leadership changes, but the process has been arduous and complicated by the competing desires of national leaders to name their own supporters to the posts.

25X1

I-8

SECRET

Most provinces now are run by people not native to the area. Periodic transfers are a deliberate effort by Beijing to keep local leaders from developing strong power bases. This arrangement is designed to ensure stronger loyalty to Beijing, or at least to an individual patron in Beijing, but it has been only partially successful and creates some resentment within the provinces.

The rotation scheme, in fact, has kept the provinces in considerable disarray. Ironically, this confusion probably has strengthened the center's hand over the provinces. A prolonged period of political stability, with orderly, routine, predictable changes in provincial leadership that are not motivated by a desire to alter the local political situation, would give the provinces a chance to recover economically from the turmoil of the recent past and to develop efficient local political processes. A province that is more sound economically and politically is likely to be less willing to take direction from Beijing and more eager to assert its own prerogatives.

Beijing increasingly is turning to less harsh methods to maintain its hold over the provinces. The national media often single out for special praise a province that has made noteworthy progress in a high-priority area such as agriculture or birth control. This kind of national exposure enhances the prestige of the province, tends to foster healthy competition that—not incidentally—prevents the provinces from banding together against the center, and of course adds political strength to the provincial leader. Some of the media praise is politically motivated to boost the image of a provincial crony, but much of it is inspired by a genuine respect for the achievements in the province and a desire for others to learn from the example.

Beijing also has turned to economic incentives to motivate the provinces and secure their continuing compliance. China has tried economic decentralization in the past, with mixed results, and is experimenting with it again. Greater latitude is being allowed the provinces and administrative levels below them in economic planning, management, marketing, and finance. Local areas may be permitted to keep a larger share of their profits and make their own decisions as to how to spend

I-9 SECRET 25X1

25X1

25X1

SECRET

the money. In a bold move, Beijing has announced plans to allow some local areas to enter into direct foreign joint ventures and play a greater role in the area of foreign trade without interference from the center.

25X1

25X1

How well this will work is open to some question. Past efforts to decentralize economic decisionmaking, notably in 1957-58, were hampered by the inexperience of local officials. A dearth of qualified economic managers and technicians still plagues the country today. Decentralization was tried again in 1962-66, when China was seeking to recover from the grave economic losses of the disastrous Great Leap Forward. At the same time, however, regional party bureaus, the supraprovincial party organs of authority, were reinstated. Presumably, the regional bureaus exercised greater control over all activities within the province, and it is by no means clear just how much economic leeway the provinces actually were given. The steady economic progress registered in those years may not have been a result of decentralization.

25X1

Another decentralization effort in 1972 was cut short by political conflict in the capital and the concern of some national leaders--notably Mao Zedong--that disloyal elements that had sided with former Defense Minister Lin Biao were lurking in the provinces. This time, even as Beijing speaks again of decentralization, it has established a variety of general and specialized national government organizations tasked with overseeing specific economic problems and presumably giving the center a better grip on the economic activity of the nation. Still, Beijing seems intent on granting a greater degree of economic decentralization that has been the case in the recent past. Premier Hua significantly made no mention of economic regions, roughly akin to the party bureaus, in his major address to China's Parliament in June.

25X1

Although decentralization undoubtedly is currently popular in the provinces, it may prove less so with time. Local officials responsible and accountable for a range of economic activity previously unknown to them could find themselves on the spot if their performance falls short. In that case, they may be more than willing to allow higher levels up to and including the center to

I-10

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

SECRET

25X1

shoulder the burden again. In areas such as foreign trade, where China's image and reputation are at stake, it will be difficult for national leaders to let local officials many of whom are woefully ignorant of the outside world or the economics of foreign trade, take the lead. Beijing already has complained repeatedly of overeager local officials wanting to buy too much or agreeing to sell more than China can deliver.

25X1

Despite the pitfalls, some degree of decentralization clearly is in the cards, undoubtedly in part to harness local enthusiasm for the economic modernization program and to ensure a continued commitment to the main features of the program. It is also a recognition by Beijing of the vast potential in the provinces and an effort to get the center and the provinces to march in step.

25X1

SECRET	

25X1

25X1

BEIJING AND THE NORTHEAST PROVINCES

Beijing and the three northeastern provinces—Liaoning, Jilin, and Heilongjiang—are among the most politically active areas in China. As the capital of China and a growing urban center, Beijing has been the scene of many important national as well as city developments. The Tiananmen riots that ended in the purge of Vice Chairman Deng Xiaoping in April 1976, the "reversal of verdicts" on that incident in 1978, and the ouster of Wu De, the city's top administrator, were all national as well as local events.

The area northeast of Beijing was one of the areas most disrupted by activities of the Gang of Four. Under the leadership of Mao Yuanxin, a nephew of the late Chairman Mao, those provinces took the lead in advocating the Gang's radical political program until the death of Mao Zedong and the purge of the "leftists" in late 1976. Since central intervention and a massive purge brought new officials to power, the area has taken the lead in advocating and implementing the new, pragmatic policy line.

Beijing Politics

Since the founding of the People's Republic of China in 1949, the politics of Beijing municipality often have been intertwined with national personalities and events. In fact, Beijing has played such an important role in Chinese politics that local power in the capital usually has been translated into major influence in national politics. All city party bosses

This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum was coordinated by the National Intelligence Officer for China. Any questions or comments may be directed to

25X1

I-12 SECRET

SECRET	

prior to the present incumbent were Politburo members who held concurrent high-level central party jobs; other city leaders frequently have served in central organizations. These interlocking appointments and the physical colocation of city and national offices have often resulted in political events in one constituency affecting politics in the other.

25X1

In recent years, Beijing city politics have centered on the ups and downs of party First Secretary and Politburo member Wu De. In April 1976, Wu as Beijing's top administrator took steps to control disorders that broke out in Tiananmen Square during a demonstration of respect for Premier Zhou Enlai who had died three months earlier. Opponents of Vice Premier Deng Xiaoping--who was expected to succeed Zhou as Premier--saw the demonstration as a show of support for him and intervened to stop it. Wu's involvement in suppressing the incident dismayed many residents and pragmatic associates of Deng as well.

25X1

Politically, Wu De never recovered from his intervention at Tiananmen. Following Mao's death and the purge of the extremist Gang of Four in 1976, Wu came under increasingly sharp criticism for his involvement in the affair.

25X1

Last fall, Wu De was finally removed from his local positions—though he retains his seat on the Politburo—and Lin Hujia was transferred from neighboring Tianjian to Beijing to replace Wu.

25X1

At the same time, the participants in the Tiananmen incident were exonerated of the charges made against them. The popular exuberance that followed Wu's removal and the appearance of wall posters containing personal grievances and political statements soon grew into the "democracy movement." For the few months that the movement lasted, "democracy wall," west of Tiananmen, was the scene of a rare display of relatively freewheeling political and intellectual ferment. Following what Beijing saw as an unacceptable escalation of political protests, increasing informal contacts with foreigners, and disorders in Shanghai last spring, the central authorities clamped down on the dissident activities.

SECRET	

The removal of Wu De and the evaluation of the Tiananmen incident also resulted in a redirection of city concerns. Political questions have given way to more practical issues such as housing, utilities, and living conditions. The appointment of Lin Hujia to replace Wu as First Secretary was much heralded because of his known concern for such matters. So far, however, he apparently has made little progress. More than 200,000 households still live in what the city authorities themselves call substandard housing, and there are serious problems of waste disposal and water supply as well. The city's own paper has reported that the public works departments are deeply in debt and admit that Beijing is suffering from urban decay and unplanned expansion. Although such complaints have begun to tarnish Lin's reputation, there is no indication yet that Lin, who has been in the city less than a year, is in serious personal trouble.

Politics in Northeast China

The region northeast of Beijing--once known as Manchuria, and for many years the most industrialized region in China--is one of the areas most severely disrupted by the political intrigues of the Gang of Four and its followers. Mao Yuanxin, a young nephew of Mao Zedong who used his family connections to advance through the political ranks and to promote the "leftists" policies of the Gang of Four throughout the region, had the leading role in this drama. After he became acting head of Liaoning Province in 1974, the younger Mao was able to undermine political controls in the province and turn the apparatus into a beacon for "leftist" policies. Mao Yuanxin also exerted a great deal of influence in neighboring Jilin and Heilongjiang Provinces. Jilin's first secretary apparently was in sympathy with Mao, and for several years Heilongjiang, like Liaoning, was without a designated first secretary. Mao's manipulation of this situation led to his sobriquet "overlord of Northeast China."

Beijing Intervenes

After the purge of the Gang of Four in October 1976, the new central leadership began to solidify its position throughout the provinces. The northeast, being one of the most "leftist" and thus least reliable areas,

I-14

SECRET

25X1|

25X1

SECRET

was one of Beijing's first priorities. In Liaoning, Zeng Shaoshan, who had been appointed First Secretary in late 1975 but had, in effect, abandoned his responsibilities to Mao Yuanxin, made a self-criticism and was put under the supervision of a new Second Secretary, Ren Zhongyi. In Heilongjiang, where there had not been a first secretary in many years, Second Secretary Liu Guangtao was promoted and given a chance to formally head the province. In Jilin, First Secretary Wang Huaishan, who had apparently supported Mao Yuanxin, was replaced by a rehabilitated party veteran Wang Enmao.

Beijing underscored these changes, and a massive purge of lower level officials, by launching a national campaign to expose the "crimes" of Mao Yuanxin. In the spring of 1977, Hua Guofeng added his personal imprimatur to the changes by touring the area in the company of Li Desheng, the military region commander, and Wang Dongxing, a Politburo member who at that time was in charge of security work. According to broadcasts from the area, Li Desheng played a continuing role as Beijing's "man on the scene" during the subsequent provincial house-cleaning.

There were substantial variations in the implementation of anti-Gang policies among the provinces. Liaoning, the most troubled of the northeast provinces, made fairly good progress, and by the summer of 1977 a report on work there was approved by the Central Committee. In Jilin, Wang Enmao pushed ahead quickly to restore political accountability. In Heilongjiang, however, Liu Guangtao intentionally dragged his feet on the rectification process. The central authorities, after warning him several times during 1977, summoned Liu to the capital where he was fired by Hua Guofeng in December. Yang Yichen, a Secretary in the Provincial Party Committee, replaced him.

The final major reorganization in the northeast came in the fall of 1978 when Zeng Shaoshan was finally replaced by his Second Secretary, Ren Chongyi, who 19 months before had been sent to supervise his politically suspect boss. Ren's promotion, which came at about the same time as Wu De was removed in Beijing, was accompanied by a thorough restaffing of the provincial apparatus, an indication that the central authorities had decided that a complete break with the earlier provincial establishment was necessary.

I-15 SECRET 25X1

25X1|

25X1

SECRET	

The Current Situation in the Northeast

The "clean sweep" of the provincial apparatus in the northeast created a stable administrative setup that is responsive to central policy direction. Much of the attention of the provincial leadership has centered on rebuilding the badly decayed administrative structure. Priority has been given to restoring the economic base-particularly the extensive industrial sector--which has been the mainstay of the northeast. In addition, the central authorities have stressed the need for that area to drastically improve its agricultural performance.

Aside from the general economic programs, leaders in the northeast are addressing a broad range of other concerns. For example, Heilongjiang Province's agricultural plain makes it one of the few areas in China that can exploit modern Western agricultural machinery. Yichen, the First Secretary, led a delegation of agricultural experts to the United States last summer and since that time, he and his province have clearly taken the lead in promoting the application of imported farming techniques and equipment. Jilin, under the leadership of veteran administrator Wang Enmao, has devoted considerable attention to theoretical matters. Song Zhenting, Director of the provincial Propaganda Department, has published several ideological pieces in national newspapers and journals. Recently, he was identified as the "Dean of Education" at the Central Committee's Party School in Beijing.

Liaoning, the province most disrupted by Gang of Four activities and last among the northeast provinces to install a new leadership, is still trying to recover from the disarray caused by Mao Yuanxin. National and provincial media have undertaken an expose on the improper execution in Liaoning of party member Zhang Zhixin in 1975. Although the person who wrongfully signed the death warrant has not been identified—it likely was Mao Yuanxin—the publicity has led to demands for investigation of Shenyang Military Region Commander Li Desheng and his predecessor. Chen Xilian.

Li Desheng and his predecessor. Chen Xilian.

I-16 SECRET 25X1

25X1

25X1

25X1 25X1

25X1

Approved For Release 2007/12/0	8 : CIA-RDP83R00184R002600590002-8
Apployed For Release 2007/12/09). CIA-RDF03R00104R002000390002-0

CONFIDENTIAL	

SHAANXI, SHANXI, AND INNER MONGOLIA

Shaanxi, Shanxi, and the Inner Mongolia Autonomous Region demonstrate the political diversity of China's provinces. Shaanxi Province, a haven for the Chinese Communists after the Long March in the mid-1930s, has been led in recent years by several associates of party Chairman Hua Guofeng. Its failure quickly to adopt pragmatic, new central policies after the purge of the Gang of Four in 1976 led to a full-scale "housecleaning" of the provincial leadership last fall. When the dust settled early this year, Shaanxi had two new top officials--Ma Wenrui was named party boss and Yu Mingtao was selected for the top government post. Shaanxi thus became one of a handful of provinces that has split the top party and government jobs since the Cultural Revolution. In most provinces, one person is both party first secretary and chairman of the provincial revolutionary committee.

There have been no similar personnel upheavals in Shanxi Province yet, but signs are increasing that changes in the provincial leadership are not far off. The top political leaders have been caught lagging in a shift in national agricultural policy and are openly admitting their errors, normally a clear signal that they are in for reassignment. In Inner Mongolia (Nei Monggol), the formal exoneration of Politburo member Ulanhu from charges made against him during the Cultural Revolution has permitted him to reestablish his direct influence over this important minority area. These varying patterns stem from the dramatic changes that resulted from the death of Mao Zedong and the purge of the Gang of Four in 1976.

This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum was coordinated with the National Intelligence Officer for China. Any questions and comments may be addressed to

I-17 CONFIDENTIAL 25X1

25X1l

25X1

CONFIDENTIAL	

25X1

25X1

25X1

Shaanxi Politics

The political leadership of Shaanxi (Shensi) Province was reorganized last December after months of public criticism by the central authorities in Beijing. Ruishan, chairman of the Revolutionary Committee since the Cultural Revolution and first secretary of the party committee since it was reestablished in 1971, was replaced by Second Secretary Wang Renchong. Wang, who had been sent to Shaanxi only three months earlier to oversee the forthcoming leadership changes, was a transitional appointee. Soon after the third plenum of the party Central Committee last December, he was named a Vice Premier and sent to Beijing to head a new State Agriculture Commission. Replacing Wang in his provincial party position was Ma Wenrui, who had served as a regional official in the Northwest during the early years of his career. In March, Yu Mingtao, a party secretary and Revolutionary Committee vice chairman, was promoted to chairman of the Revolutionary Committee.

Trouble in the Province. By mid-1978, there was a growing awareness that Shaanxi was lagging behind other provinces in the campaign to eliminate vestiges of the Gang of Four. Li Ruishan appeared to be weathering the political storm, however, perhaps due to a personal connection with Party Chairman Hua Guofeng with whom he had served in Hunan Province before the Cultural Revolution. Ultimately, however, the acceleration of the national modernization effort—which requires strict local accountability—and Li's continued inability or unwillingness to implement other central policy directives forced Beijing to move against him.

In June of 1978, Hu Yaobang--a close associate of Vice Chairman Deng Xiaoping and, at that time, director of the party's Organization Department--criticized Shaanxi leaders publicly for failing to care adequately for veteran party cadre members who lived in the "revolutionary base area" in the northern part of the province.* Such direct public criticism of local officials by the central authorities is rare, and in this case, it signaled the beginning of the end for Li Ruishan. The

I-18 CONFIDENTIAL 25X1

^{*} The area near Yenan where, following the Long March, Mao Zedong and the remnants of the Communist forces established their head-quarters for the war against Japan and the civil war against Chiang Kai-shek.

CONFIDENTIAL

subsequent appointment of a second secretary—a move that in recent years has often preceded the removal of provincial first secretaries—made clear that Li would be stripped of his posts. Although Li Ruishan was removed, he has not been purged. Perhaps as a result of his link to Hua Guofeng, Li was named a Vice Minister of the State Agricultural Commission under his former

Current Situation. The delay in reorganizing the Shaanxi leadership has slowed the implementation of many central programs. Even the local press has acknowledged that "anti-Gang of Four" work--removal of officials not in step with the current political line--which is ending in many provinces, is far from complete in Shaanxi. If the province fits the pattern of other areas, the personnel changes and political housecleaning should soon give way to the methodical implementation of central policies that up to now have been shunted aside.

Shanxi Politics

subordinate, Wang Renchong.

Wang Qian, first secretary of the Shanxi (Shansi) party committee and Revolutionary Committee chairman, is one of only seven top provincial leaders in China who have retained their posts since the purge of the Gang of Four in October 1976. Wang, who was promoted to his positions in 1975 at a time when party Vice Chairman Deng Xiaoping was "in charge of the work of the Central Committee," is an agricultural expert with long years of experience in Shanxi. He was party second secretary and governor of the province before the Cultural Revolution. Since central leadership meetings late last year, however, Wang and several of his provincial associates have been put on the political defensive largely as a result of changes in the central policy on agricultural development.

Dazhai. The Dazhai Brigade, long China's foremost model of agricultural development, is also Shanxi Province's most important political feature. Standing for self-reliance, labor-intensive agriculture, land reclamation, egalitarian compensation for work, and brigade-level ownership, Dazhai has long been touted as the exemplar for Chinese agriculture. Several of Dazhai's leaders have risen to provincial and national positions. Politburo member Chen Yonggui, was one of Dazhai's founders;

I-19 CONFIDENTIAL 25X1

25X1

25X1

25X1

25X1

25X1

25X1

and Guo Fenglian, the current secretary of the brigade's party committee, is an alternate member of the Central Committee and recently toured the United States as a member of the agricultural delegation led by Yang Yichen, the first secretary in Heilongjiang Province. Other national leaders such as party Chairman Hua Guofeng, who in the early 1970s was in charge of agricultural work at the central level and who played an important role at two national meetings to "learn from Dazhai," are also closely associated with the policies practiced at Dazhai.

Recent central policy decisions have changed the agricultural program to stress production over politics and left Dazhai and its advocates open to criticism. There also has been a growing awareness that no one model can successfully be applied to all of the varied conditions faced throughout the country. Subsequent investigations of Dazhai also have revealed that it was not self-sufficient but received a state subsidy and that it was inefficient in its use of labor and machinery.

There have been serious political consequences of this reevaluation. Since the third plenum when provincial officials first strongly criticized Beijing's agricultural policies, Chen Yonggui has been attacked for his lack of qualifications to set agricultural policy; Wang Qian has had to admit his errors publicly in publicizing Dazhai; and Guo Fenglian has been made to confess responsibility for mistakes in running the brigade.

Local Consequences. Shanxi's leadership--particularly Wang Qian--is clearly vulnerable on the Dazhai issue. In December, Beijing dispatched a second secretary to the province. Under the supervision of the new second secretary, Lo Guibo, Wang Qian made a series of public "self-criticisms," not only for mistakes on Dazhai, but for miscarriages of justice and errors of judgment as well. Three persons whose executions he approved--but which were not carried out--were recently vindicated. Charges such as these, Wang's numerous public "apologies," and the appointment of a second secretary suggest that changes are about to occur in Shanxi's top leadership. Few provincial leaders have survived such public censure, and Wang may soon be replaced.

25X1

I - 20

CONFIDENTIAL

25X1

25X1

25X1

25X1

The Politics of Inner Mongolia (Nei Monggol)

Inner Mongolia, more than any area of China, has been dominated politically by one man. Ulanhu, now a member of the Politburo and director of the Central Committee's United Front World Department, held the top party, government, and military posts in the region from the late 1940s until he was purged during the Cultural Revolution in 1966. Despite his long absence, his influence in Inner Mongolia, both personal and as a symbol of minority autonomy, is still an important factor. In fact, recent personnel changes and the restoration of territory to the region are both the result of his connections with the province.

The current leadership of Inner Mongolia emerged last fall. You Taizhong, a military man who had run the province since the early 1970s, was replaced in October as first secretary by Zhou Hui, an outsider who had been brought in three months earlier as second secretary to oversee the shakeup. Shortly thereafter Kung Fei, one of Ulanhu's deputies from before the Cultural Revolution, was made chairman of the Revolutionary Committee--the province's government apparatus. In addition, several other officials were added to fill out the provincial hierarchy.

The Ulanhu Connection. The reorganization of the leadership in Inner Mongolia came less than six months after the central authorities formally exonerated Ulanhu and his colleagues of the charges brought against them during the Cultural Revolution. The decision to clear Ulanhu resulted in a shift in emphasis in the region from attacking leaders associated with the Gang of Four to documenting the frameup that led to Ulanhu's ouster.

Ulanhu's exoneration may also partly account for the recent restoration of parts of Inner Mongolia given to five other provinces in 1969. On 1 July, more than 300,000 square miles, including several predominantly Mongol areas, reverted to the region. Although military concern over the border had been a factor in splitting up Inner Mongolia, there was also a great deal of concern that residual support for Ulanhu among the minority nationalities might seriously undermine stability in the border region. Now, with the admission that Ulanhu and

I-21

CONFIDENTIAL

Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8 CONFIDENTIAL

25X1

his supporters were not guilty of wrongdoing, Beijing apparently has chosen to reunite the minority areas and to return to the policy of minority autonomy in force before the Cultural Revolution.

25X1

In line with this decision, there is a renewed acceptance of minority languages, dress, and culture not just in Inner Mongolia, but throughout the various minority areas. The State Nationalities Commission that Ulanhu once headed has been reestablished and the recent session of the National People's Congress also set up a committee to deal with minority affairs.

25X1

Although we know little of the internal politics of the new leadership in Inner Mongolia, it is becoming clear that Ulanhu's influence is growing. Huang Hou, one of Ulanhu's former deputies, has been appointed Commander of the military district and, perhaps more importantly, Ting Mao, another of his subordinates has just been made second secretary.

25X11 25X1₁ 25X1

25X1

ır-

I-22 CONFIDENTIAL

3	Approved For Release 2007/12/06 : CIA-RDP83R00184R002600590002-8 SECRET	
		25X
•	GUANGDONG, GUANGXI, AND YUNNAN	
	Summary	
	The three provinces of Guangdong, Guangxi, and Yunnan have been reliable bastions of support for the pragmatic modernization policies associated with Vice Premier Deng Xiaoping and his colleagues. The region also plays an important and unique role in national-level politics. Many of the area's leaders have personal ties to high-ranking and influential national and regional officials. By virtue of its pragmatic political inclinations, the region functions as a southern capital of moderate politics in China. Several important political meetings have taken place at a famous hot springs resort not far from Guangzhou (Canton), the capital of Guangdong,	
		25 X
	Until quite recently, the top leaders of the three provinceswho were longtime associatesappeared to share generally the same political views, and to act accordingly. In fact, the appearance of a monolithic political alliance in South China prompted more than one outside observer to refer to that complex network of personal relationships between the southern provinces and Beijing as the "Southern Mafia." Recent political developments, however, have shattered that illusion of unity. In Guangdong Province, a major shakeup of top-ranking leaders, which has been under way since 1978, seems to be part of an attempt by certain leaders in Beijing to curtail the political authority of the southern-based leaders who are loyal to Deng Xiaoping and his colleagues.	25X
	This memorandum was prepared by the East Asia - Pacific Division of the Office of Political Analysis, National Foreign Assessment Center, in response to a National Security Council request. The memorandum was coordinated by the National Intelligence Officer for China. Questions and comments may be addressed to	25X 25X

I-23

Province has been one of China's most stable provinces, both politically and economically, since the mid-1970s, thanks largely to the pervasive influence of Wei Guoging, a longtime associate of Vice Premier Deng Xiaoping. late last year, the province was governed by Politburo member Wei. He, together with Xu Shiyou, fellow Politburo member and commander of the Guangzhou Military Region (which encompasses the three provinces of Guangdong, Guangxi, and Hunan), virtually dominated political events in the entire triprovince area. Wei, a native of Guangxi Province and a former party boss there for over a decade, now resides in Beijing and is director of the Army's General Political Department. he no longer works in South China, his influence is still felt in the region. Criticism of Wei in the capital, however, suggests that his role in Guangdong, Guangxi, and Yunnan may be declining, and that <u>political infig</u>hting in the province is on the upswing.

25X1

The charge against Wei is familiar--not pursuing with sufficient vigor the campaign to root out followers of the now-discredited Gang of Four. During that

I - 24

SECRET			

campaign in 1976 and 1977, Guangdong leaders appeared to take a half-hearted approach to the problem of investigating and removing local leftists. Although Guangdong had been a center of factional infighting during the Cultural Revolution,

25X1 25X1

the province has been governed since the mid-1970s by a politically moderate leadership. Therefore, the lack of enthusiasm during 1976 and 1977 stemmed largely from the presence in Guangdong of only a few influential leftists.

25X1

In late 1977, however, the situation in the province began to change. Canton boss Jiao Linyi, who was strongly supported by Wei Guoqing, came under attack in that city for being both an inept administrator and too soft on Gang followers. In late September 1977, Wei himself was transferred to Beijing, but he held on to his provincial posts. Criticism of Jiao Linyi, who had been expected to replace Wei, continued, and a newly rehabilitated party veteran, Xi Zhongxun--a man with no known ties either to Deng Xiaoping or Wei Quoqing--was assigned to Guangdong as the number-two man behind Wei. A provocative political figure in China, Xi, who had been out of sight since 1962, had been closely associated with a former defense minister who criticized Mao's economic policies in the late 1950s and was purged. Interestingly, Xi was attacked by name in his former bailiwick, the northwest, just prior to his return to power, suggesting that his rehabilitation is still controversial, 16 years after his purge.

25X1

With Wei's transfer to a full-time Army job in Beijing--the major one of PLA political commissar--Xi emerged after April 1978 as Guangdong's de facto chieftain. In December Xi was promoted to first secretary. Yang Shangkun--who was accused by Red Guards during the Cultural Revolution of planting listening devices in Chairman Mao's office--was named number-two man, a move that diluted Xi's authority. Yang also became Canton city boss when Jiao Linyi was transferred to Beijing.

25X1

Although current boss Xi Zhongxun has no clear ties to any particular element of the central leadership, Yang Shangkun has long been close to Vice Premier Deng. It appears, then, that Xi's appointment in Guangdong

I-25 SECRET

25	V	1
Zυ	$^{\sim}$	- 1

SI	ECRET	

and Wei's subsequent loss of his local posts and criticism in Beijing may reflect the machinations of a group of central leaders who are intent upon curtailing the influence of Deng Xiaoping and the so-called Southern Mafia. The persistent strength of Deng and his colleagues, however, appears to be manifested in the promotion of Yang Shangkun as Xi Zhongxun's backup. In any case, the political situation in the province continues to be marred by instability.

25X1

Despite these problems, Beijing, in a move designed to spur local entrepreneurism, has designated Guangdong Province as an experimental area in which foreign investment--especially overseas Chinese investment--and foreign trade will be developed rapidly in order to maximize accumulation of foreign exchange. In an attempt to generate enthusiasm for the program, provincial and local leaders apparently will get increased control over their own planning, financing, and revenue. Although Guangdong may well receive additional flexibility and influence over its economy, Beijing will continue to dictate the province's overall economic goals and direction.

25X1

Other serious political problems in Guangdong concern refugees from Vietnam and illegal immigration to Hong Kong. More than 100,000 Vietnamese refugees have arrived in the province since the spring of 1978. The Chinese say it costs the provincial government over \$1,200 to relocate and resettle each refugee. In addition to the refugee problem, the province has been faced with the sensitive problem of stemming the flow of illegal emigrants leaving Guangdong for the bright lights of Hong Kong. In fact, Beijing recently intervened in this affair, calling on provincial authorities to adopt strong measures, such as stepping up border surveillance and increasing the severity of the punishment meted out to captured escapees.

25X1 25<u>X1</u>

25X1

Politics in Guangxi

Although formally referred to by the Chinese as the Guangxi Zhuang Autonomous Region--because of its large Zhuang minority population--Guangdong's neighbor to the west not only has the same administrative status,

I-26

SECRET

but also resembles its sister province in many ways. Like Guangdong, Guangxi has been politically stable for most of the past decade despite some of the bloodiest violence in China during the tumultuous Cultural Revolution. In addition, the influence of Wei Guoqing, who is himself a member of the Zhuang minority, is never far below the surface in Guangxi. Having served in Guangxi since the mid-1950s, Wei was the only province chief to have survived the turmoil of the Cultural Revolution without being transferred or losing his position.

25X1

When Wei was transferred to Guangdong in 1975, his longtime subordinate, An Pingsheng, took over his responsibilities. In early 1977, however, An was transferred to Yunnan Province and replaced by yet another one of Wei's former subordinates, Qiao Xiaoguang. Despite these changes at the top, the politics of Guangxi have remained basically unchanged since the early 1970s, mainly because of Wei Guoqing's dominant influence in the province.

25X1

Leadership changes among Guangxi's key personnel have been rare, and purges almost nonexistent during the past several years. Present party chieftain Qiao Xiaoguang, like his predecessors, has a long history of participation in the politics of the area, having served there since 1952—with a five-year break as the Chinese ambassador to North Korea, 1956—61. Most of Qiao's underlings have also been active in the region for quite some time and they appear to support the same brand of moderate, pragmatic politics. In fact, during the anti-Gang of Four campaign, the leaders of Guangxi were even less active than those of Guangdong in rooting out local leftists.

25**X**1

At present, the province's ties both to Wei Guoqing and Deng Xiaoping are still strong. During the 20th anniversary celebrations last December of the establishment of the Guangxi Autonomous Region, for example, Wei led the delegation, accompanied by Deng's wife, Zhuo Lin, who was obviously acting as a stand-in for her husband.

25X1

Guangxi's pressing political problems parallel those of Guangdong, but on a smaller scale and with minor variations. For instance, minorities are a major

I-27 SECRET

SECRET	

factor in Guangxi politics, although they are wellrepresented politically and integrated socially with the ethnic Han Chinese. The recent influx of refugees from Indochina has strained the meager resources of the province, which is less prosperous than Guangdong.

25X1

Politics in Yunnan

In contrast to the other two provinces on China's southern rim, Yunnan Province has been for the past decade one of the least politically stable provinces in the country. Yunnan was a hotbed of factional politics and political unrest following the outbreak of the Cultural Revolution. Residual factionalism from that era persisted sporadically during the mid-1970s resulting not only in a chaotic political situation but also in a disastrous economic state of affairs, including a decline in industrial production and stagnation in agriculture. Under these circumstances, the leftist Gang of Four succeeded in recruiting a sizable following of disenchanted youth and workers. During the 1970s, Yunnan earned itself the dubious distinction of being one of the most seriously disrupted in China.

25X1

Jia Qiyun, generally recognized as a political moderate, was in charge of the province during the turmoil of the mid-1970s until his removal in 1977. Although never officially criticized as a Gang follower, Jia was attacked for leftist leanings in wall posters in the provincial capital of Kunming in 1976. Jia's purge in early 1977 probably was the result of his failure to quell the serious political conflict, rather than of his putative links to the left. Never a forceful administrator, Jia apparently lacked the power and authority to put to rest the political conflict that had been brewing in Yunnan since the late 1960s.

25X1

Jia's replacement was former Guangxi boss An Pingsheng. An was ordered into Yunnan by a central directive of February 1977 that requested Yunnan's leadership be "readjusted and strengthened"--terms commonly used at the time to describe wholesale housecleanings. In contrast to the experiences of Guangdong and Guangxi, local leftists in Yunnan were rooted out and removed from all levels of the province's leadership. Political instability and accompanying disruptions were so severe that the provincial economy did not begin to

I-28

SECRET	25X1
recover until late summer of 1977. The province's economy has been recovering steadily but slowly ever since.	25X1
The most important recent event in Yunnan has been the Sino-Vietnamese conflict that began in early 1979. Aside from the refugee problem, which is as serious in Yunnan as in the other two provinces, unhappiness with the Chinese military's performance in the war has called into question the fate of Kunming Military Region Commander Yang Dezhi. Although there are no indications that Yang, a Korean war veteran	

Approved For Release 2007/12/06: CIA-RDP83R00184R002600590002-8

who assumed command in Kunming shortly before the attack, has been criticized personally for his role in the conflict, he has rarely appeared since the war, suggesting that he is under some sort of cloud.

25X1